

**ANNUAL FINANCIAL REPORT
OF
GRUNDY COUNTY, TENNESSEE
AND
GRUNDY COUNTY SCHOOL DEPARTMENT**

SINGLE AUDIT REPORT



FOR THE YEAR ENDED JUNE 30, 2006

**Comptroller of the Treasury
Department of Audit
Division of County Audit
Nashville, Tennessee**

ANNUAL FINANCIAL REPORT
GRUNDY COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2006

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This financial report is available at www.comptroller.state.tn.us

GRUNDY COUNTY, TENNESSEE

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Audit Highlights

Annual Financial Report
Grundy County, Tennessee
For the Year Ended June 30, 2006

Scope

We have audited the financial statements of each major fund and the aggregate remaining fund information of Grundy County as of and for the year ended June 30, 2006.

Results

Our report on Grundy County's financial statements expresses an adverse opinion because government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34.

Our audit resulted in seven findings and recommendations, which we have reviewed with Grundy County management. Detailed findings and recommendations are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

GRUNDY COUNTY

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
-

OFFICE OF COUNTY MAYOR

- ◆ The office accounted for the transactions of the county-owned sewer system through the county's General Fund instead of an enterprise fund.
 - ◆ The office did not maintain inventory records for nondepreciable assets.
-

OFFICE OF HIGHWAY SUPERINTENDENT

- ◆ Invoices were paid without documentation that goods had been received or services had been rendered.
-

OFFICE OF SHERIFF

- ◆ Official prenumbered receipts were not issued for some collections. Funds were not always deposited within three days of collections.
-

OTHER FINDINGS

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately in the Offices of County Mayor, Highway Superintendent, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff.

INTRODUCTORY SECTION

Grundy County Officials
June 30, 2006

Officials

LaDue Bouldin, County Mayor
Hubert Hargis, Highway Superintendent
Lucyle Hampton, Trustee
Joanne Childers, Assessor of Property
Jimmy Rogers, County Clerk
Marcia Bess, Circuit and General Sessions Courts Clerk
Phyllis Dent, Clerk and Master
Gayle VanHooser, Register
Brent Myers, Sheriff

Board of County Commissioners

Ralph Rieben, Chairman	David Griswold
Robert Borne	Tim Layne
Gary Brewer	David Lockhart
David Gallagher	Monte Meeks
Earl Geary, Jr.	

FINANCIAL SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

INDEPENDENT AUDITOR'S REPORT

January 19, 2007

Grundy County Mayor and
Board of County Commissioners
Grundy County, Tennessee

To the County Mayor and Board of County Commissioners:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Grundy County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 36, which collectively comprise a portion of the county's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Grundy County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements

for the county's governmental activities and discretely presented component units are not reasonably determinable.

As described in Note I, Grundy County, Tennessee, has prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. These standards require county governments that do not present government-wide financial statements to present fund financial statements in conformity with all the accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements. These standards also require some additional disclosures to be included in the notes to the financial statements, as described in Note I.

In our opinion, because of the effect of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Grundy County, Tennessee, as of June 30, 2006, or the changes in its financial position for the year then ended.

Transactions pertaining to the operations of the county-owned sewer system were accounted for through the General Fund (major governmental fund). These transactions should be accounted for in an enterprise fund using the accrual basis of accounting in accordance with state statutes. The effects on the financial statements are not reasonably determinable.

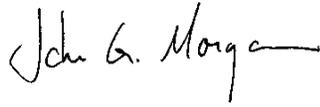
However, in our opinion, except for the effect of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Grundy County, Tennessee, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2007, on our consideration of Grundy County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 39 through 43 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grundy County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, and the miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

Grundy County, Tennessee
 Balance Sheet
 Governmental Funds
 June 30, 2006

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>ASSETS</u>						
Cash	\$ 1,138	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,138
Equity in Pooled Cash and Investments	1,307,027	1,468,156	1,060,942	2,180,072	957,868	6,974,065
Due from Other Governments	28,587	0	262,896	82,221	0	373,704
Due from Other Funds	2,588	0	0	0	0	2,588
Property Taxes Receivable	2,015,217	549,605	0	259,535	0	2,824,357
Allowance for Uncollectible Property Taxes	(73,526)	(20,053)	0	(9,469)	0	(103,048)
Notes Receivable - Current	0	0	0	0	24,000	24,000
Notes Receivable - Long-Term	0	0	0	0	24,000	24,000
Total Assets	\$ 3,281,031	\$ 1,997,708	\$ 1,323,838	\$ 2,512,359	\$ 1,005,868	\$ 10,120,804
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Accounts Payable	\$ 351	\$ 0	\$ 0	\$ 63,247	\$ 0	\$ 63,598
Contracts Payable	140,500	0	232,708	0	28,485	401,693
Deferred Revenue - Current Property Taxes	1,827,914	498,522	0	235,413	0	2,561,849
Deferred Revenue - Delinquent Property Taxes	106,361	29,007	0	13,698	0	149,066
Other Deferred Revenues	0	0	133,685	42,447	0	176,132
Total Liabilities	\$ 2,075,126	\$ 527,529	\$ 366,393	\$ 354,805	\$ 28,485	\$ 3,352,338
<u>Fund Balances</u>						
Reserved for Alcohol and Drug Treatment	\$ 19,576	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,576
Reserved for Courthouse and Jail Maintenance	131,865	0	0	0	0	131,865
Reserved for Computer System - Register	1,194	0	0	0	0	1,194
Reserved for Long-Term Notes Receivable	0	0	0	0	24,000	24,000
Reserved for Other General Purposes	14,019	0	0	0	0	14,019
Unreserved, Reported In:						
General Fund	1,039,251	0	0	0	0	1,039,251
Special Revenue Funds	0	1,470,179	957,445	0	451,531	2,879,155
Debt Service Funds	0	0	0	2,157,554	0	2,157,554
Capital Projects Funds	0	0	0	0	501,852	501,852
Total Fund Balances	\$ 1,205,905	\$ 1,470,179	\$ 957,445	\$ 2,157,554	\$ 977,383	\$ 6,768,466
Total Liabilities and Fund Balances	\$ 3,281,031	\$ 1,997,708	\$ 1,323,838	\$ 2,512,359	\$ 1,005,868	\$ 10,120,804

The notes to the financial statements are an integral part of this statement.

Exhibit B

Grundy County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>Revenues</u>						
Local Taxes	\$ 2,115,809	\$ 516,706	\$ 699	\$ 689,136	\$ 35,381	\$ 3,357,731
Licenses and Permits	5,224	0	0	0	0	5,224
Fines, Forfeitures, and Penalties	32,692	0	0	0	6,890	39,582
Charges for Current Services	54,751	0	65,957	0	78,430	199,138
Other Local Revenues	45,683	8,230	209,767	279,812	64,894	608,386
Fees Received from County Officials	519,532	0	0	0	0	519,532
State of Tennessee	230,148	21,095	1,720,776	0	50,000	2,022,019
Federal Government	220,389	0	0	0	112,119	332,508
Other Governments and Citizens Groups	10,300	10,000	0	500,000	0	520,300
Total Revenues	\$ 3,234,528	\$ 556,031	\$ 1,997,199	\$ 1,468,948	\$ 347,714	\$ 7,604,420
<u>Expenditures</u>						
Current:						
General Government	\$ 607,055	\$ 0	\$ 0	\$ 0	\$ 35,256	\$ 642,311
Finance	296,817	0	0	0	0	296,817
Administration of Justice	417,849	0	0	0	4,270	422,119
Public Safety	994,718	0	0	0	54,571	1,049,289
Public Health and Welfare	210,682	502,078	0	0	0	712,760
Social, Cultural, and Recreational Services	35,935	0	0	0	0	35,935
Agricultural and Natural Resources	69,623	0	0	0	0	69,623
Other Operations	516,918	10,556	0	0	143,438	670,912
Highways	0	0	2,453,209	0	0	2,453,209
Debt Service:						
Principal on Debt	15,912	0	0	646,395	26,067	688,374
Interest on Debt	2,148	0	0	541,426	13,150	556,724
Other Debt Service	0	0	0	76,778	0	76,778
Capital Projects	0	0	0	0	8,271	8,271
Total Expenditures	\$ 3,167,657	\$ 512,634	\$ 2,453,209	\$ 1,264,599	\$ 285,023	\$ 7,683,122
Excess (Deficiency) of Revenues						
Over Expenditures	\$ 66,871	\$ 43,397	\$ (456,010)	\$ 204,349	\$ 62,691	\$ (78,702)

(Continued)

Exhibit B

Grundy County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds (Cont.)

	Major Funds				Nonmajor	Total
	General	Solid Waste / Sanitation	Highway / Public Works	General Debt Service	Other Govern- mental Funds	
<u>Other Financing Sources (Uses)</u>						
Refunding Debt Issued	\$ 0	\$ 0	\$ 0	\$ 9,405,000	\$ 0	\$ 9,405,000
Transfers In	0	10,618	0	0	0	10,618
Transfers Out	0	0	0	0	(10,618)	(10,618)
Payments to Refunded Debt Escrow Agent	0	0	0	(9,338,657)	0	(9,338,657)
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 10,618</u>	<u>\$ 0</u>	<u>\$ 66,343</u>	<u>\$ (10,618)</u>	<u>\$ 66,343</u>
Net Change in Fund Balances	\$ 66,871	\$ 54,015	\$ (456,010)	\$ 270,692	\$ 52,073	\$ (12,359)
Fund Balance, July 1, 2005	1,139,034	1,416,164	1,413,455	1,886,862	925,310	6,780,825
Fund Balance, June 30, 2006	<u>\$ 1,205,905</u>	<u>\$ 1,470,179</u>	<u>\$ 957,445</u>	<u>\$ 2,157,554</u>	<u>\$ 977,383</u>	<u>\$ 6,768,466</u>

The notes to the financial statements are an integral part of this statement.

Exhibit C

Grundy County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	\$ 607,349
Accounts Receivable	1,135
Due from Other Governments	<u>88,461</u>
Total Assets	<u>\$ 696,945</u>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 2,588
Due to Other Taxing Units	88,461
Due to Litigants, Heirs, and Others	<u>605,896</u>
Total Liabilities	<u>\$ 696,945</u>

The notes to the financial statements are an integral part of this statement.

GRUNDY COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grundy County's financial statements are not presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

Grundy County has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and discretely presented component units. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. Grundy County has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused Grundy County's auditor to issue an adverse opinion on the county's financial statements.

Although Grundy County's financial statements are not presented in conformity with GAAP, the financial statements have been presented in conformity with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. The Comptroller of the Treasury has adopted financial reporting standards for local governments in Tennessee that do not implement the provisions of GASB Statement 34. These standards require fund financial statements to be presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements.

The following are the more significant accounting policies of Grundy County:

A. Reporting Entity

Grundy County is a public municipal corporation governed by an elected nine-member board. As required by GAAP, these financial statements present Grundy County (the primary government).

Blended Component Units – There are no legally separate component units of Grundy County that meet the criteria for being reported as part of the primary government by the blending method.

Excluded Component Units – The following entities meet the criteria for discretely presented component units of the county. Since Grundy County is presenting fund financial statements only, the financial information of entities that meet the criteria for discretely presented component units is not included in the fund financial statements, as required by generally accepted accounting principles. These entities would have been presented as separate columns in those statements to emphasize that they are legally separate from the county.

The Grundy County School Department operates the public school system in the county, and the voters of Grundy County elect its board. The School Department is fiscally dependent on the county because it may not issue debt without county approval, and its budget and property tax levy are subject to the County Commission's approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

The Grundy County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Grundy County, and its governing body is appointed by the Grundy County Commission. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval.

The Grundy County School Department and the Grundy County Emergency Communications District issue separate financial statements from those of the county. The School Department's financial statements are published as a separate report, but under the same cover as the county's financial statements. The Grundy County Emergency Communications District's financial statements are published as a separate report. Complete financial statements of the Grundy County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

Grundy County Emergency Communications District
P.O. Box 177
Altamont, TN 37301

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund financial statements of Grundy County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. However, the county does not have any proprietary funds to

report. An emphasis is placed on major funds within the governmental category.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements. The fiduciary funds in total are reported in a single column.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Grundy County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Fund, the Industrial/Economic Development Fund, and the General Debt Service Fund for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Property taxes collected within 30 days after year-end are considered to be immaterial for reporting purposes. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which have no measurement focus. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grundy County reports the following major governmental funds:

General Fund – This is the county’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Solid Waste/Sanitation Fund – This fund is used to account for transactions relating to the disposal of Grundy County’s solid waste.

Highway/Public Works Fund – This fund accounts for transactions of the county’s Highway Department.

General Debt Service Fund – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

Grundy County also reports the following fund types:

Capital Projects Fund – The General Capital Projects Fund is used to account for various capital projects within the county.

Agency Funds – These funds account for amounts collected in an agency capacity by the constitutional officers and local sales taxes received from the state to be forwarded to the various cities in the county. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

State statutes authorize the government to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the county’s own legally issued bonds or notes; the State Treasurer’s Investment Pool; and repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all Grundy County and Grundy County School Department funds. Each fund’s portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Debt Service Fund. Grundy County and the Grundy County School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer’s Investment Pool are reported at cost. The State Treasurer’s Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate

in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held at the balance sheet date.

2. Receivables and Payables

Activity between funds for unremitted current collections outstanding at the end of the fiscal year is referred to as due to/from other funds.

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.99 percent of total taxes levied.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes.

Additional costs attach to delinquent taxes after a court suit has been filed.

3. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; they report capital outlays as expenditures upon acquisition. Grundy County does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets should be reported in the government-wide statement of net assets; however, as previously noted, Grundy County does not present government-wide statements.

4. Compensated Absences

General policy of Grundy County does not allow for the accumulation of vacation and sick days beyond the year-end, except for the Highway Department, which permits the accumulation of vacation and sick leave exceeding a normal year's accumulation. Payment of vacation leave is guaranteed; however, this guaranteed amount is not considered material to the financial statements of this report.

5. Long-term Obligations

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including landfill postclosure costs, are recognized to the extent that the liabilities have matured (come due for payment) each period.

Governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specified purpose.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the Constitutional Officers – Fees Fund (special revenue fund) which was not budgeted, and the capital projects funds, which adopt project length budgets. All annual appropriations lapse at fiscal year end.

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor/Executive, County Attorney, etc.). Management may make revisions within major categories, but only the County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The county's budgetary basis of accounting is consistent with GAAP, except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and GAAP basis is presented on the face of each budgetary schedule.

B. The Operations of the County-Owned Sewer System Were Not Accounted for Through an Enterprise Fund

The county did not account for transactions of the county-owned sewer system through an enterprise fund. Instead, these transactions were accounted for through the county's General Fund. Section 68-221-208, Tennessee Code Annotated, and paragraph 8(m) of the Wastewater Facility Revolving Fund Loan Agreement provide for Grundy County to establish a sewer user's fee and/or ad valorem taxes as necessary to provide sufficient funds to pay the costs of operation and maintenance, including depreciation, according to generally accepted accounting principles and debt service requirements of the sewer system. Reporting the sewer system through an enterprise fund is the only method that would ensure sufficient funds are provided to pay the costs of operations and maintenance, including depreciation and debt service requirements of the sewer system.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Grundy County and the School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be

obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

Investment Balances. As of June 30, 2006, Grundy County had the following investment carried at cost. All investments are in the county trustee's investment pool. Separate disclosures concerning pooled investments cannot be made for Grundy County and the School Department since both pool their deposits and investments through the county trustee.

Investment	Maturities	Cost
State Treasurer's Investment Pool	Daily	<u>\$ 4,813,743</u>
Total		<u><u>\$ 4,813,743</u></u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Grundy County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Grundy County has no investment policy that would further limit its investment choices. As of June 30, 2006, Grundy County's investment in the State Treasurer's Investment Pool was unrated.

B. Notes Receivable

The Industrial/Economic Development Fund had notes receivable of \$48,000 on June 30, 2006, from financing a sewer project for the Beersheba Springs Community. On February 23, 2004, the Tennessee Conference of the United Methodist Church agreed to reimburse the county for the cost of the sewer project for the community. This sewer project also serves the conference's Camping and Retreat Center facilities. The terms of the note required the conference to make a lump sum cash payment of \$50,000 when the note was signed and to make four annual payments of \$24,000 plus interest at a rate of three percent on the outstanding balance.

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	\$ 2,588

This balance resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2006, consisted of the following amount:

<u>Transfers Out</u>	<u>Transfers In</u> Solid Waste/ Sanitation Fund
Nonmajor governmental fund	\$ 10,618
Total	<u>\$ 10,618</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

D. Long-term Debt

Since Grundy County is presenting fund financial statements only, long-term debt is not reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but Grundy County is not presenting government-wide financial statements.

General Obligation Bonds, Notes, and Other Loans

The county issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation

bonds. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds, capital outlay notes, and other loans outstanding were issued for original terms of up to 25 years for bonds, six years for notes, and up to 20 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds included in the long-term debt as of June 30, 2006, will be retired from the General Debt Service Fund. Other loans included in the long-term debt as of June 30, 2006, will be retired from the General Fund and the Industrial/Economic Development Fund.

General obligation bonds and other loans outstanding as of June 30, 2006, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
General Obligation Bonds	3.4 to 6%	\$ 14,311,000	\$ 1,737,526
General Obligation Bonds - Refunding	4.15	9,405,000	9,405,000
Other Loans	1.26 to 3	746,719	523,674

The annual requirements to amortize all general obligation bonds and other loans outstanding as of June 30, 2006, including interest payments, are presented in the following table:

Year Ending June 30	Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2007	\$ 635,651	\$ 466,213	\$ 48,256	\$ 12,370
2008	655,919	436,157	49,438	11,188
2009	681,201	409,045	50,661	9,976
2010	706,495	380,814	51,904	8,722
2011	736,803	351,455	53,190	7,448
2012-2016	3,781,457	1,279,381	270,225	16,762
2017-2021	3,950,000	504,642	0	0
Total	\$ 11,147,526	\$ 3,827,707	\$ 523,674	\$ 66,466

There is \$2,157,554 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita totaled \$777, based on the 2000

federal census. Debt per capita, including bonds and other loans totaled \$814, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

Governmental Activities:	Bonds	Notes	Other Loans
Balance July 1, 2005	\$ 11,562,921	\$ 66,000	\$ 565,653
Additions	9,405,000	0	0
Deductions	(580,395)	(66,000)	(41,979)
Bonds Refunded	(9,245,000)	0	0
Balance June 30, 2006	<u>\$ 11,142,526</u>	<u>\$ 0</u>	<u>\$ 523,674</u>
Balance Due Within One Year	<u>\$ 635,651</u>	<u>\$ 0</u>	<u>\$ 48,256</u>

	<u>Landfill Postclosure Care Costs</u>
Balance July 1, 2005	\$ 238,080
Deductions	<u>(9,920)</u>
Balance June 30, 2006	<u>\$ 228,160</u>
Balance Due Within One Year	<u>\$ 9,920</u>

On September 19, 2003, the county assumed \$427,739 of a Community Development Block Grant Industrial Development Loan. The original loan (\$699,000) had passed through Grundy County to an industrial corporation located in the county. This loan, along with interest of \$56,494, will be repaid over the next ten years.

During February 2004, Grundy County entered into a revocable contract with a private firm to provide postclosure care for the county's closed landfill. Terms of this agreement require the county to pay an annual fee of \$9,920 for postclosure care costs. The county is required to provide postclosure care for this closed landfill for the next 23 years. The June 30, 2006, postclosure care cost balance is based on the revocable contract of \$9,920 per year for the next 23 years.

Advance Refunding

On May 1, 2006, Grundy County advance refunded a general obligation bond issue with a separate general obligation bond issue. The county issued \$9,405,000 of general obligation refunding bonds to provide resources to purchase U.S. government securities that were placed in an irrevocable trust to generate resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered defeased, and the liability has been removed from the county's long-term debt. As a result of the advance refunding, total debt service payments over the next 15 years will be reduced by \$369,886, and an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$277,071 was obtained.

IV. OTHER INFORMATION

A. Risk Management

Grundy County is exposed to various risks related to general liability, property, casualty, and workers' compensation. Grundy County is a member of the Local Government Property and Casualty Fund (LGPCF) and the Local Government Workers' Compensation Fund, which are public entity risk pools established by the Tennessee County Services Association, an association of member counties. The county pays annual premiums to the pool for general liability, property, casualty losses, and workers' compensation insurance coverage. The creation of these pools provides for them to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims of more than \$100,000 for each insured event.

Grundy County provides health insurance coverage to its employees through the Local Government Group Insurance Fund (LGGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that was established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, Tennessee Code Annotated, all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by the fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

B. Accounting Changes

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries became effective for the year ended June 30, 2006. GASB Statement No. 42 requires governments to report the effects of capital asset impairments in their financial statements

when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. In addition, GASB Statement No. 42 clarifies and establishes accounting requirements for insurance recoveries. GASB Statement No. 42 had no effect on the financial statements for the year ended June 30, 2006, since no capital asset impairment and insurance recoveries occurred. However, it is reasonably expected that capital asset impairment and insurance recoveries may occur in subsequent years that will be subject to the provisions of Statement No. 42.

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since Grundy County is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. It is reasonably expected that Grundy County will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

The provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34 became effective for the year ended June 30, 2006. GASB Statement No. 46 provides guidance to determine when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. Grundy County had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that Grundy County will be required to disclose net assets restricted by enabling legislation in subsequent years.

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or

severance to employees who are involuntarily terminated. Statement No. 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. Grundy County was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that Grundy County will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Subsequent Event

On January 3, 2007, Grundy County entered into capital leases totaling \$104,435 for four vehicles.

D. Contingent Liabilities

The county is involved in several pending lawsuits. The county attorney estimates that the potential claims against the county not covered by insurance resulting from such litigation would not materially affect the financial statements of the county.

E. Change in Administration

On August 22, 2005, Robert Meeks left the Office of Sheriff and was succeeded by Brent Myers.

F. Landfill Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. These closure and postclosure care costs generally are paid near or after the date that the landfill stops accepting waste. The Grundy County landfill stopped accepting household solid waste during the 1997-98 year and has contracted with a private company for its waste disposal. The Solid Waste/Sanitation Fund (special revenue fund) reports closure and postclosure care costs as expenditures in each period in which they are incurred. The \$228,160 reported as landfill postclosure care cost liability at June 30, 2006, represents a revocable contract with a private firm for postclosure care cost of \$9,920 per year. The county is required to monitor the closed landfill for the next 23 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Joint Venture

The Twelfth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Twelfth Judicial District and the municipalities within the district. The district includes Bledsoe, Franklin, Grundy, Marion, Rhea, and Sequatchie Counties, and various cities within these counties. The purpose of the DTF is

to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a Board of Directors including the district attorney general and the sheriffs and police chiefs of the participating law enforcement agencies within the judicial district. Grundy County made no contributions to the DTF for the year ended June 30, 2006, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

Administrative Office:

District Attorney General
Twelfth Judicial District
375 Church Street, Suite 300
Dayton, TN 37321

H. Retirement Commitments

Plan Description

Employees of Grundy County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Grundy County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

Grundy County requires employees to contribute five percent of earnable compensation. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2006, was 9.38 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Grundy County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2006, Grundy County's annual pension cost of \$266,035 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Grundy County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005, was ten years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-06	\$266,035	100%	\$0
6-30-05	271,962	100	0
6-30-04	206,443	100	0

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
	(a)	(b)	(b) - (a)	(a/b)	(c)	
6-30-05	\$9,495	\$10,255	\$760	92.59%	\$2,910	26.12%
6-30-03	8,598	9,454	856	90.95	2,655	32.24
6-30-01	7,933	8,890	957	89.24	2,711	35.30

I. Purchasing Laws

Office of County Mayor

Purchasing procedures for the Office of County Mayor are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, Tennessee Code Annotated (TCA), which provide for purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids.

Office of Highway Superintendent

Purchasing procedures for the Highway Department are governed by provisions of Chapter 435, Private Acts of 1939, and the Uniform Road Law, Section 54-7-113, TCA, which provide for purchases exceeding \$10,000 to be made after public advertisement and solicitation of competitive bids.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 2,115,809	\$ 1,952,339	\$ 1,952,339	\$ 163,470
Licenses and Permits	5,224	4,600	4,600	624
Fines, Forfeitures, and Penalties	32,692	23,800	23,800	8,892
Charges for Current Services	54,751	43,700	44,400	10,351
Other Local Revenues	45,683	26,500	42,595	3,088
Fees Received from County Officials	519,532	428,000	428,000	91,532
State of Tennessee	230,148	177,832	245,046	(14,898)
Federal Government	220,389	0	188,685	31,704
Other Governments and Citizens Groups	10,300	4,500	4,800	5,500
Total Revenues	\$ 3,234,528	\$ 2,661,271	\$ 2,934,265	\$ 300,263
<u>Expenditures</u>				
<u>General Government</u>				
County Commission	\$ 15,684	\$ 18,800	\$ 18,800	\$ 3,116
Board of Equalization	2,000	2,000	2,000	0
Beer Board	50	200	200	150
Other Boards and Committees	850	1,000	1,000	150
County Mayor/Executive	104,452	105,604	105,604	1,152
County Attorney	66,126	16,200	71,200	5,074
Election Commission	239,789	95,543	247,468	7,679
Register of Deeds	78,410	79,271	79,271	861
County Buildings	99,694	104,805	104,805	5,111
<u>Finance</u>				
Property Assessor's Office	102,489	107,807	107,807	5,318
County Trustee's Office	81,563	82,974	82,974	1,411
County Clerk's Office	112,765	113,036	113,036	271
<u>Administration of Justice</u>				
Circuit Court	188,615	185,532	190,134	1,519
General Sessions Judge	103,239	62,738	116,038	12,799
Chancery Court	82,935	81,358	83,825	890
Juvenile Court	42,060	46,328	46,328	4,268
Other Administration of Justice	1,000	1,000	1,000	0
<u>Public Safety</u>				
Sheriff's Department	520,063	485,912	526,284	6,221
Administration of the Sexual Offender Registry	462	500	500	38
Jail	350,931	229,838	363,442	12,511
Fire Prevention and Control	13,620	12,000	14,200	580
Rescue Squad	4,500	4,500	4,500	0
Other Emergency Management	410	2,000	2,000	1,590
County Coroner/Medical Examiner	1,500	2,100	2,100	600
Other Public Safety	103,232	2,000	127,000	23,768
<u>Public Health and Welfare</u>				
Local Health Center	55,310	96,376	96,376	41,066

(Continued)

Exhibit D-1

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Fund (Cont.)

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Expenditures (Cont.)</u>				
<u>Public Health and Welfare (Cont.)</u>				
Ambulance/Emergency Medical Services	\$ 125,000	\$ 125,000	\$ 125,000	\$ 0
Crippled Children Services	830	830	830	0
Regional Mental Health Center	7,000	7,000	7,000	0
General Welfare Assistance	2,465	2,500	2,500	35
Other Waste Disposal	20,077	37,550	37,550	17,473
<u>Social, Cultural, and Recreational Services</u>				
Senior Citizens Assistance	1,500	1,500	1,500	0
Libraries	34,435	35,500	35,500	1,065
<u>Agriculture & Natural Resources</u>				
Agriculture Extension Service	48,693	53,455	53,455	4,762
Soil Conservation	20,930	22,103	22,103	1,173
<u>Other Operations</u>				
Tourism	210	10,000	10,000	9,790
Industrial Development	2,866	2,900	2,900	34
Other Economic and Community Development	86,600	0	124,625	38,025
Veterans' Services	11,848	11,823	11,848	0
Other Charges	148,123	147,800	148,123	0
Contributions to Other Agencies	20,869	21,000	21,000	131
Employee Benefits	224,916	259,500	259,500	34,584
Miscellaneous	21,486	16,000	21,677	191
<u>Principal on Debt</u>				
General Government	15,912	15,912	15,912	0
<u>Interest on Debt</u>				
General Government	2,148	2,148	2,148	0
Total Expenditures	\$ 3,167,657	\$ 2,711,943	\$ 3,411,063	\$ 243,406
Excess (Deficiency) of Revenues				
Over Expenditures	\$ 66,871	\$ (50,672)	\$ (476,798)	\$ 543,669
Net Change in Fund Balance				
Fund Balance, July 1, 2005	\$ 1,139,034	\$ 1,062,041	\$ 1,062,041	\$ 76,993
Fund Balance, June 30, 2006				
	\$ 1,205,905	\$ 1,011,369	\$ 585,243	\$ 620,662

Exhibit D-2

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Solid Waste/Sanitation Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 516,706	\$ 497,770	\$ 497,770	\$ 18,936
Other Local Revenues	8,230	6,000	6,000	2,230
State of Tennessee	21,095	0	0	21,095
Other Governments and Citizens Groups	10,000	10,000	10,000	0
Total Revenues	<u>\$ 556,031</u>	<u>\$ 513,770</u>	<u>\$ 513,770</u>	<u>\$ 42,261</u>
<u>Expenditures</u>				
<u>Public Health and Welfare</u>				
Convenience Centers	\$ 490,810	\$ 504,950	\$ 504,950	\$ 14,140
Landfill Operation and Maintenance	11,268	22,000	22,000	10,732
<u>Other Operations</u>				
Other Charges	10,556	12,000	12,000	1,444
Total Expenditures	<u>\$ 512,634</u>	<u>\$ 538,950</u>	<u>\$ 538,950</u>	<u>\$ 26,316</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 43,397</u>	<u>\$ (25,180)</u>	<u>\$ (25,180)</u>	<u>\$ 68,577</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	\$ 10,618	\$ 9,920	\$ 20,538	\$ (9,920)
Total Other Financing Sources (Uses)	<u>\$ 10,618</u>	<u>\$ 9,920</u>	<u>\$ 20,538</u>	<u>\$ (9,920)</u>
Net Change in Fund Balance	\$ 54,015	\$ (15,260)	\$ (4,642)	\$ 58,657
Fund Balance, July 1, 2005	<u>1,416,164</u>	<u>1,427,195</u>	<u>1,427,195</u>	<u>(11,031)</u>
Fund Balance, June 30, 2006	<u>\$ 1,470,179</u>	<u>\$ 1,411,935</u>	<u>\$ 1,422,553</u>	<u>\$ 47,626</u>

Exhibit D-3

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Highway/Public Works Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 699	\$ 0	\$ 0	\$ 699
Charges for Current Services	65,957	70,000	70,000	(4,043)
Other Local Revenues	209,767	14,200	14,200	195,567
State of Tennessee	1,720,776	1,770,117	1,935,979	(215,203)
Total Revenues	\$ 1,997,199	\$ 1,854,317	\$ 2,020,179	\$ (22,980)
<u>Expenditures</u>				
<u>Highways</u>				
Administration	\$ 104,054	\$ 125,377	\$ 125,377	\$ 21,323
Highway and Bridge Maintenance	923,078	1,048,000	1,058,000	134,922
Operation and Maintenance of Equipment	248,378	246,747	256,747	8,369
Litter and Trash Collection	28,468	31,737	31,737	3,269
Other Charges	113,080	146,000	136,000	22,920
Employee Benefits	365,790	397,500	397,500	31,710
Capital Outlay	670,361	707,600	863,462	193,101
Total Expenditures	\$ 2,453,209	\$ 2,702,961	\$ 2,868,823	\$ 415,614
Excess (Deficiency) of Revenues Over Expenditures	\$ (456,010)	\$ (848,644)	\$ (848,644)	\$ 392,634
Net Change in Fund Balance	\$ (456,010)	\$ (848,644)	\$ (848,644)	\$ 392,634
Fund Balance, July 1, 2005	1,413,455	1,355,055	1,355,055	58,400
Fund Balance, June 30, 2006	\$ 957,445	\$ 506,411	\$ 506,411	\$ 451,034

GRUNDY COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006

BUDGETARY INFORMATION

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor/Executive, County Attorney, etc.). Management may make revisions within major categories, but only the County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The county's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary schedule.

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Courthouse and Jail Maintenance Fund – The Courthouse and Jail Maintenance Fund is used to account for a special tax levied by private act on litigation. The proceeds of the tax must be used to pay for improvements or maintenance on the courthouse and jail.

Industrial/Economic Development Fund – This fund is used to account for lease/rental revenues on county industrial buildings and state/federal grants related to industrial/economic development.

Drug Control Fund – The Drug Control Fund is used to account for revenues received from drug-related fines, forfeitures, and seizures.

Constitutional Officers - Fees Fund – The Constitutional Officers - Fees Fund is used to account for transactions of the fee and commission accounts of the trustee, clerks, register, and sheriff. Revenues from fees and commissions earned by these officials are remitted to the county's General Fund.

Capital Projects Fund

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

General Capital Projects Fund – The General Capital Projects Fund is used to account for general capital expenditures of the county.

Exhibit E-1

Grundy County, Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue Funds</u>				<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
	<u>Courthouse</u> <u>and Jail</u> <u>Maintenance</u>	<u>Industrial /</u> <u>Economic</u> <u>Development</u>	<u>Drug</u> <u>Control</u>	<u>Total</u>	<u>General</u> <u>Capital</u> <u>Projects</u>	
<u>ASSETS</u>						
Equity in Pooled Cash and Investments	\$ 29,654	\$ 372,639	\$ 53,723	\$ 456,016	\$ 501,852	\$ 957,868
Notes Receivable - Current	0	24,000	0	24,000	0	24,000
Notes Receivable - Long-Term	0	24,000	0	24,000	0	24,000
Total Assets	\$ 29,654	\$ 420,639	\$ 53,723	\$ 504,016	\$ 501,852	\$ 1,005,868
<u>LIABILITIES AND FUND BALANCES</u>						
<u>Liabilities</u>						
Contracts Payable	\$ 0	\$ 28,485	\$ 0	\$ 28,485	\$ 0	\$ 28,485
Total Liabilities	\$ 0	\$ 28,485	\$ 0	\$ 28,485	\$ 0	\$ 28,485
<u>Fund Balances</u>						
Reserved for Long-Term Notes Receivable	\$ 0	\$ 24,000	\$ 0	\$ 24,000	\$ 0	\$ 24,000
Unreserved	29,654	368,154	53,723	451,531	501,852	953,383
Total Fund Balances	\$ 29,654	\$ 392,154	\$ 53,723	\$ 475,531	\$ 501,852	\$ 977,383
Total Liabilities and Fund Balances	\$ 29,654	\$ 420,639	\$ 53,723	\$ 504,016	\$ 501,852	\$ 1,005,868

Exhibit E-2

Grundy County, Tennessee
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Funds					Capital Projects Fund	Total Nonmajor Governmental Funds
	Courthouse and Jail Maintenance	Industrial / Economic Development	Drug Control	Constitu - tional Officers - Fees	Total	General Capital Projects	
<u>Revenues</u>							
Local Taxes	\$ 35,381	\$ 0	\$ 0	\$ 0	\$ 35,381	\$ 0	\$ 35,381
Fines, Forfeitures, and Penalties	0	0	6,890	0	6,890	0	6,890
Charges for Current Services	0	74,160	0	4,270	78,430	0	78,430
Other Local Revenues	0	64,894	0	0	64,894	0	64,894
State of Tennessee	0	50,000	0	0	50,000	0	50,000
Federal Government	0	112,119	0	0	112,119	0	112,119
Total Revenues	\$ 35,381	\$ 301,173	\$ 6,890	\$ 4,270	\$ 347,714	\$ 0	\$ 347,714
<u>Expenditures</u>							
Current:							
General Government	\$ 35,256	\$ 0	\$ 0	\$ 0	\$ 35,256	\$ 0	\$ 35,256
Administration of Justice	0	0	0	4,270	4,270	0	4,270
Public Safety	0	0	54,571	0	54,571	0	54,571
Other Operations	354	142,844	240	0	143,438	0	143,438
Debt Service:							
Principal on Debt	0	26,067	0	0	26,067	0	26,067
Interest on Debt	0	13,150	0	0	13,150	0	13,150
Capital Projects	0	8,271	0	0	8,271	0	8,271
Total Expenditures	\$ 35,610	\$ 190,332	\$ 54,811	\$ 4,270	\$ 285,023	\$ 0	\$ 285,023
Excess (Deficiency) of Revenues Over Expenditures	\$ (229)	\$ 110,841	\$ (47,921)	\$ 0	\$ 62,691	\$ 0	\$ 62,691
<u>Other Financing Sources (Uses)</u>							
Transfers Out	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (10,618)	\$ (10,618)
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (10,618)	\$ (10,618)
Net Change in Fund Balances	\$ (229)	\$ 110,841	\$ (47,921)	\$ 0	\$ 62,691	\$ (10,618)	\$ 52,073
Fund Balance, July 1, 2005	29,883	281,313	101,644	0	412,840	512,470	925,310
Fund Balance, June 30, 2006	\$ 29,654	\$ 392,154	\$ 53,723	\$ 0	\$ 475,531	\$ 501,852	\$ 977,383

Exhibit E-3

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Courthouse & Jail Maintenance Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 35,381	\$ 30,000	\$ 30,000	\$ 5,381
Total Revenues	<u>\$ 35,381</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 5,381</u>
<u>Expenditures</u>				
<u>General Government</u>				
County Buildings	\$ 35,256	\$ 55,070	\$ 55,070	\$ 19,814
<u>Other Operations</u>				
Other Charges	354	450	450	96
Total Expenditures	<u>\$ 35,610</u>	<u>\$ 55,520</u>	<u>\$ 55,520</u>	<u>\$ 19,910</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (229)</u>	<u>\$ (25,520)</u>	<u>\$ (25,520)</u>	<u>\$ 25,291</u>
Net Change in Fund Balance	\$ (229)	\$ (25,520)	\$ (25,520)	\$ 25,291
Fund Balance, July 1, 2005	<u>29,883</u>	<u>27,852</u>	<u>27,852</u>	<u>2,031</u>
Fund Balance, June 30, 2006	<u>\$ 29,654</u>	<u>\$ 2,332</u>	<u>\$ 2,332</u>	<u>\$ 27,322</u>

Exhibit E-4

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Industrial/Economic Development Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Charges for Current Services	\$ 74,160	\$ 26,160	\$ 26,160	\$ 48,000
Other Local Revenues	64,894	57,000	57,000	7,894
State of Tennessee	50,000	0	20,000	30,000
Federal Government	112,119	0	210,425	(98,306)
Total Revenues	<u>\$ 301,173</u>	<u>\$ 83,160</u>	<u>\$ 313,585</u>	<u>\$ (12,412)</u>
<u>Expenditures</u>				
<u>Other Operations</u>				
Industrial Development	\$ 142,844	\$ 59,220	\$ 230,428	\$ 87,584
<u>Principal on Debt</u>				
General Government	26,067	0	26,067	0
<u>Interest on Debt</u>				
General Government	13,150	0	13,150	0
<u>Capital Projects</u>				
Public Health and Welfare Projects	8,271	0	154,553	146,282
Total Expenditures	<u>\$ 190,332</u>	<u>\$ 59,220</u>	<u>\$ 424,198</u>	<u>\$ 233,866</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 110,841</u>	<u>\$ 23,940</u>	<u>\$ (110,613)</u>	<u>\$ 221,454</u>
Net Change in Fund Balance	\$ 110,841	\$ 23,940	\$ (110,613)	\$ 221,454
Fund Balance, July 1, 2005	<u>281,313</u>	<u>180,405</u>	<u>180,405</u>	<u>100,908</u>
Fund Balance, June 30, 2006	<u>\$ 392,154</u>	<u>\$ 204,345</u>	<u>\$ 69,792</u>	<u>\$ 322,362</u>

Exhibit E-5

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Drug Control Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Fines, Forfeitures, and Penalties	\$ 6,890	\$ 10,000	\$ 10,000	\$ (3,110)
Total Revenues	<u>\$ 6,890</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ (3,110)</u>
<u>Expenditures</u>				
<u>Public Safety</u>				
Drug Enforcement	\$ 54,571	\$ 35,100	\$ 56,100	\$ 1,529
<u>Other Operations</u>				
Other Charges	240	900	900	660
Total Expenditures	<u>\$ 54,811</u>	<u>\$ 36,000</u>	<u>\$ 57,000</u>	<u>\$ 2,189</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (47,921)</u>	<u>\$ (26,000)</u>	<u>\$ (47,000)</u>	<u>\$ (921)</u>
Net Change in Fund Balance	\$ (47,921)	\$ (26,000)	\$ (47,000)	\$ (921)
Fund Balance, July 1, 2005	<u>101,644</u>	<u>101,059</u>	<u>101,059</u>	<u>585</u>
Fund Balance, June 30, 2006	<u>\$ 53,723</u>	<u>\$ 75,059</u>	<u>\$ 54,059</u>	<u>\$ (336)</u>

Major Governmental Fund

General Debt Service Fund

The General Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Exhibit F

Grundv County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Debt Service Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Local Taxes	\$ 689,136	\$ 582,289	\$ 582,289	\$ 106,847
Other Local Revenues	279,812	130,000	130,000	149,812
Other Governments and Citizens Groups	500,000	500,000	500,000	0
Total Revenues	<u>\$ 1,468,948</u>	<u>\$ 1,212,289</u>	<u>\$ 1,212,289</u>	<u>\$ 256,659</u>
<u>Expenditures</u>				
<u>Principal on Debt</u>				
General Government	\$ 206,395	\$ 205,925	\$ 206,396	\$ 1
Education	440,000	440,000	440,000	0
<u>Interest on Debt</u>				
General Government	62,998	63,469	62,998	0
Education	478,428	478,430	478,430	2
<u>Other Debt Service</u>				
General Government	12,481	13,500	14,800	2,319
Education	64,297	4,000	70,343	6,046
Total Expenditures	<u>\$ 1,264,599</u>	<u>\$ 1,205,324</u>	<u>\$ 1,272,967</u>	<u>\$ 8,368</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 204,349</u>	<u>\$ 6,965</u>	<u>\$ (60,678)</u>	<u>\$ 265,027</u>
<u>Other Financing Sources (Uses)</u>				
Refunding Debt Issued	\$ 9,405,000	\$ 0	\$ 9,405,000	\$ 0
Payments to Refunded Debt Escrow Agent	(9,338,657)	0	(9,338,657)	0
Total Other Financing Sources (Uses)	<u>\$ 66,343</u>	<u>\$ 0</u>	<u>\$ 66,343</u>	<u>\$ 0</u>
Net Change in Fund Balance	\$ 270,692	\$ 6,965	\$ 5,665	\$ 265,027
Fund Balance, July 1, 2005	<u>1,886,862</u>	<u>1,843,803</u>	<u>1,843,803</u>	<u>43,059</u>
Fund Balance, June 30, 2006	<u>\$ 2,157,554</u>	<u>\$ 1,850,768</u>	<u>\$ 1,849,468</u>	<u>\$ 308,086</u>

Fiduciary Funds

Agency Funds are used to account for assets held by the county as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cities - Sales Tax Fund – The Cities - Sales Tax Fund is used to account for the second half of the sales tax revenues collected inside incorporated cities of the county. These revenues are received by the county from the State of Tennessee and forwarded to the various cities on a monthly basis.

Constitutional Officers - Agency Fund – The Constitutional Officers - Agency Fund is used to account for amounts collected in an agency capacity by the county clerk, circuit and general sessions courts clerk, clerk and master, register, and sheriff. Such collections include amounts due the state, cities, other county funds, litigants, heirs, and others.

Exhibit G-1

Grundy County, Tennessee
Combining Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006

	<u>Agency Funds</u>		
	Cities - Sales Tax	Constitu- tional Officers - Agency	Total
<u>ASSETS</u>			
Cash	\$ 0	\$ 607,349	\$ 607,349
Accounts Receivable	0	1,135	1,135
Due from Other Governments	88,461	0	88,461
Total Assets	<u>\$ 88,461</u>	<u>\$ 608,484</u>	<u>\$ 696,945</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$ 0	\$ 2,588	\$ 2,588
Due to Other Taxing Units	88,461	0	88,461
Due to Litigants, Heirs, and Others	0	605,896	605,896
Total Liabilities	<u>\$ 88,461</u>	<u>\$ 608,484</u>	<u>\$ 696,945</u>

Exhibit G-2

Grundy County, Tennessee
Combining Statement of Changes in Assets and
Liabilities - All Agency Funds
For the Year Ended June 30, 2006

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Cities - Sales Tax Fund</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 486,320	\$ 486,320	\$ 0
Due From Other Governments	82,585	88,461	82,585	88,461
Total Assets	\$ 82,585	\$ 574,781	\$ 568,905	\$ 88,461
<u>Liabilities</u>				
Due to Other Taxing Units	\$ 82,585	\$ 574,781	\$ 568,905	\$ 88,461
Total Liabilities	\$ 82,585	\$ 574,781	\$ 568,905	\$ 88,461
<u>Constitutional Officers - Agency Fund</u>				
<u>Assets</u>				
Cash	\$ 638,330	\$ 2,341,859	\$ 2,372,840	\$ 607,349
Accounts Receivable	307	1,135	307	1,135
Total Assets	\$ 638,637	\$ 2,342,994	\$ 2,373,147	\$ 608,484
<u>Liabilities</u>				
Due to Other Funds	\$ 4,559	\$ 2,588	\$ 4,559	\$ 2,588
Due to Litigants, Heirs, and Others	634,078	2,340,406	2,368,588	605,896
Total Liabilities	\$ 638,637	\$ 2,342,994	\$ 2,373,147	\$ 608,484
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Equity in Pooled Cash and Investments	\$ 0	\$ 486,320	\$ 486,320	\$ 0
Cash	638,330	2,341,859	2,372,840	607,349
Accounts Receivable	307	1,135	307	1,135
Due From Other Governments	82,585	88,461	82,585	88,461
Total Assets	\$ 721,222	\$ 2,917,775	\$ 2,942,052	\$ 696,945
<u>Liabilities</u>				
Due to Other Funds	\$ 4,559	\$ 2,588	\$ 4,559	\$ 2,588
Due to Other Taxing Units	82,585	574,781	568,905	88,461
Due to Litigants, Heirs, and Others	634,078	2,340,406	2,368,588	605,896
Total Liabilities	\$ 721,222	\$ 2,917,775	\$ 2,942,052	\$ 696,945

MISCELLANEOUS SCHEDULES

Exhibit H-1

Grundy County, Tennessee
Schedule of Changes in Long-term Notes, Other Loans, and Bonds
For the Year Ended June 30, 2006

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Issued During Period	Paid and/or Matured During Period	Debt Refunded	Outstanding 6-30-06
NOTES PAYABLE									
<u>Payable through General Debt Service Fund</u>									
EMS Building	\$ 350,000	5.3%	11-11-1999	11-1-05	\$ 66,000	\$ 0	\$ 66,000	\$ 0	\$ 0
OTHER LOANS PAYABLE									
<u>Payable through General Fund</u>									
Waste Water System	318,980	1.26	Various	12-30-15	\$ 177,401	\$ 0	\$ 15,912	\$	\$ 161,489
<u>Payable through Industrial/Economic Development Fund</u>									
Assumption Agreement - Industrial Building	427,739	2 to 3	9-13-03	6-30-16	388,252	0	26,067		362,185
Total Other Loans Payable					\$ 565,653	\$ 0	\$ 41,979	\$ 0	\$ 523,674
BONDS PAYABLE									
<u>Payable through General Debt Service Fund</u>									
School Bond Series 1996	12,000,000	5.5 to 6	5-1-1996	5-1-21	\$ 770,000	\$ 0	\$ 375,000	\$ 0	\$ 395,000
School Refunding Series 1999	9,555,000	3.5 to 5	1-1-1999	5-1-21	9,310,000	0	65,000	9,245,000	0
Public Improvements Series 1998	2,220,000	3.4 to 4.15	11-1-1998	5-1-14	1,415,000	0	135,000	0	1,280,000
School Refunding Series 2006	9,405,000	4.15	5-1-06	5-1-21	0	9,405,000	0	0	9,405,000
General Obligation Bond-Convenience Centers	91,000	4.75	9-30-1999	9-30-14	67,921	0	5,395	0	62,526
Total Bonds Payable					\$ 11,562,921	\$ 9,405,000	\$ 580,395	\$ 9,245,000	\$ 11,142,526

Exhibit H-2

Grundy County, Tennessee

Schedule of Bond and Interest Requirements by Year

Year Ending June 30	Bond Requirements	Interest Requirements	Total Requirements
2007	\$ 635,651	\$ 466,213	\$ 1,101,864
2008	655,919	436,157	1,092,076
2009	681,201	409,045	1,090,246
2010	706,495	380,814	1,087,309
2011	736,803	351,455	1,088,258
2012	767,127	320,836	1,087,963
2013	797,465	288,958	1,086,423
2014	837,820	255,818	1,093,638
2015	679,045	221,002	900,047
2016	700,000	192,767	892,767
2017	725,000	163,718	888,718
2018	755,000	133,630	888,630
2019	790,000	102,298	892,298
2020	825,000	69,513	894,513
2021	855,000	35,483	890,483
Total	<u>\$ 11,147,526</u>	<u>\$ 3,827,707</u>	<u>\$ 14,975,233</u>

Exhibit H-3

Grundy County, Tennessee
Schedule of Notes Receivable
For the Year Ended June 30, 2006

<u>Description</u>	<u>Debtor</u>	<u>Original Amount of Note</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Balance 6-30-06</u>
<u>Industrial/Economic Development Fund</u>						
Sewer Project for the Beersheba Springs Community	The Tennessee Conference of the United Methodist Church	\$ 96,000	2-23-04	2-23-08	3 %	\$ 48,000
Total Notes Receivable						<u>\$ 48,000</u>

Exhibit H-4

Grundy County, Tennessee
Schedule of Transfers
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Capital Projects	Solid Waste/Sanitation	Postclosure care cost	<u>\$ 10,618</u>
Total Transfers			<u><u>\$ 10,618</u></u>

Exhibit H-5

Grundy County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
County Mayor	Section 8-24-102, <u>TCA</u>	\$ 57,804	\$ 50,000	Western Surety Company
Highway Superintendent	Section 8-24-102, <u>TCA</u>	55,052	100,000	"
Trustee	Section 8-24-102, <u>TCA</u>	50,048	429,100	"
Assessor of Property	Section 8-24-102, <u>TCA</u>	50,048	10,000	"
County Clerk	Section 8-24-102, <u>TCA</u>	50,048	35,000	"
Circuit Court Clerk	Section 8-24-102, <u>TCA</u>	50,048	50,000	"
Clerk and Master Register	Section 8-24-102, <u>TCA</u>	50,048	35,000	"
Sheriff:			15,000	"
Robert Meeks (7-1-05 to 8-22-05)	Section 8-24-102, <u>TCA</u>	9,175	25,000	"
Brent Myers (8-23-05 to 6-30-06)	Section 8-24-102, <u>TCA</u>	47,381	25,000	"
Public Employees Blanket Bond			150,000	Local Government Insurance Pool

Exhibit H-6

Grundy County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types
 For the Year Ended June 30, 2006

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Local Taxes</u>									
<u>County Property Taxes</u>									
Current Property Tax	\$ 1,686,970	\$ 0	\$ 460,083	\$ 0	\$ 0	\$ 0	\$ 0	\$ 217,262	\$ 2,364,315
Trustee's Collections - Prior Year	137,358	0	37,461	0	0	0	0	17,690	192,509
Circuit/Clerk & Master Collections - Prior Years	36,720	0	10,015	0	0	0	0	4,729	51,464
Interest and Penalty	24,190	0	6,597	0	0	0	0	3,115	33,902
Payments in-Lieu-of Taxes - T.V.A.	2,024	0	552	0	0	0	0	261	2,837
Payments in-Lieu-of Taxes - Local Utilities	5	0	1	0	0	0	0	1	7
Payments in-Lieu-of Taxes - Other	7,323	0	1,997	0	0	0	0	943	10,263
<u>County Local Option Taxes</u>									
Local Option Sales Tax	0	0	0	0	0	0	0	445,135	445,135
Litigation Tax - General	77,956	0	0	0	0	0	0	0	77,956
Litigation Tax - Special Purpose	0	35,381	0	0	0	0	0	0	35,381
Litigation Tax - Jail, Workhouse, or Courthouse	20,235	0	0	0	0	0	0	0	20,235
Business Tax	14,488	0	0	0	0	0	0	0	14,488
<u>Statutory Local Taxes</u>									
Bank Excise Tax	64,565	0	0	0	0	0	0	0	64,565
Wholesale Beer Tax	42,830	0	0	0	0	0	0	0	42,830
Coal Severance Tax	0	0	0	0	0	0	699	0	699
Interstate Telecommunications Tax	1,145	0	0	0	0	0	0	0	1,145
Total Local Taxes	\$ 2,115,809	\$ 35,381	\$ 516,706	\$ 0	\$ 0	\$ 0	\$ 699	\$ 689,136	\$ 3,357,731
<u>Licenses and Permits</u>									
<u>Licenses</u>									
Marriage Licenses	\$ 608	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	608
Cable TV Franchise	4,616	0	0	0	0	0	0	0	4,616
Total Licenses and Permits	\$ 5,224	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	5,224
<u>Fines, Forfeitures, and Penalties</u>									
<u>Circuit Court</u>									
Drug Control Fines	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,467	\$ 0	\$ 0	\$ 0	3,467
Data Entry Fee - Circuit Court	282	0	0	0	0	0	0	0	282
<u>General Sessions Court</u>									
Fines	3,859	0	0	0	0	0	0	0	3,859

(Continued)

Exhibit H-6

Grundy County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types (Cont.)

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>Fines, Forfeitures, and Penalties (Cont.)</u>									
<u>General Sessions Court (Cont.)</u>									
Officers Costs	\$ 10,699	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 10,699
Jail Fees	2,369	0	0	0	0	0	0	0	2,369
DUI Treatment Fines	2,749	0	0	0	0	0	0	0	2,749
Data Entry Fee - General Sessions Court	4,809	0	0	0	0	0	0	0	4,809
<u>Juvenile Court</u>									
Fines	6,639	0	0	0	0	0	0	0	6,639
<u>Chancery Court</u>									
Officers Costs	814	0	0	0	0	0	0	0	814
<u>Judicial District Drug Program</u>									
Drug Task Force Forfeitures and Seizures	0	0	0	0	3,423	0	0	0	3,423
Data Entry Fee - Other Courts	472	0	0	0	0	0	0	0	472
Total Fines, Forfeitures, and Penalties	\$ 32,692	\$ 0	\$ 0	\$ 0	\$ 6,890	\$ 0	\$ 0	\$ 0	\$ 39,582
<u>Charges for Current Services</u>									
<u>General Service Charges</u>									
Residential Waste Collection Charge	\$ 42,938	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 42,938
Other General Service Charges	0	0	0	74,160	0	0	65,957	0	140,117
<u>Fees</u>									
Vending Machine Collections	4,629	0	0	0	0	0	0	0	4,629
Constitutional Officers' Fees and Commissions	0	0	0	0	0	4,270	0	0	4,270
Data Processing Fee - Register	6,784	0	0	0	0	0	0	0	6,784
Sexual Offender Registration Fees - Sheriff	400	0	0	0	0	0	0	0	400
Total Charges for Current Services	\$ 54,751	\$ 0	\$ 0	\$ 74,160	\$ 0	\$ 4,270	\$ 65,957	\$ 0	\$ 199,138
<u>Other Local Revenues</u>									
<u>Recurring Items</u>									
Investment Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 279,812	\$ 279,812
Lease/Rentals	0	0	0	64,894	0	0	0	0	64,894
Sale of Gasoline	2,309	0	0	0	0	0	33,422	0	35,731
Miscellaneous Refunds	7,923	0	51	0	0	0	8,645	0	16,619
<u>Nonrecurring Items</u>									
Sale of Equipment	7,704	0	0	0	0	0	153,900	0	161,604

(Continued)

Exhibit H-6

Grundy County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types (Cont.)

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
Other Local Revenues (Cont.)									
<u>Other Local Revenues</u>									
Other Local Revenues	\$ 27,747	\$ 0	\$ 8,179	\$ 0	\$ 0	\$ 0	\$ 13,800	\$ 0	\$ 49,726
Total Other Local Revenues	\$ 45,683	\$ 0	\$ 8,230	\$ 64,894	\$ 0	\$ 0	\$ 209,767	\$ 279,812	\$ 608,386
<u>Fees Received from County Officials</u>									
<u>Fees-In-Lieu of Salary</u>									
County Clerk	\$ 95,018	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 95,018
Circuit Court Clerk	30,281	0	0	0	0	0	0	0	30,281
General Sessions Court Clerk	115,710	0	0	0	0	0	0	0	115,710
Clerk and Master	44,640	0	0	0	0	0	0	0	44,640
Register	69,205	0	0	0	0	0	0	0	69,205
Sheriff	9,409	0	0	0	0	0	0	0	9,409
Trustee	155,269	0	0	0	0	0	0	0	155,269
Total Fees Received from County Officials	\$ 519,532	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 519,532
<u>State of Tennessee</u>									
<u>General Government Grants</u>									
Juvenile Services Program	\$ 9,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
State Reappraisal Grant	5,952	0	0	0	0	0	0	0	5,952
Solid Waste Grants	0	0	21,095	0	0	0	0	0	21,095
<u>Health and Welfare Grants</u>									
Health Department Programs	0	0	0	50,000	0	0	0	0	50,000
Other Health and Welfare Grants	14,999	0	0	0	0	0	0	0	14,999
<u>Public Works Grants</u>									
State Aid Program	0	0	0	0	0	0	159,855	0	159,855
Litter Program	0	0	0	0	0	0	37,737	0	37,737
<u>Other State Revenues</u>									
Income Tax	1,270	0	0	0	0	0	0	0	1,270
Beer Tax	17,212	0	0	0	0	0	0	0	17,212
Alcoholic Beverage Tax	24,922	0	0	0	0	0	0	0	24,922
Contracted Prisoner Boarding	70,199	0	0	0	0	0	0	0	70,199
Gasoline and Motor Fuel Tax	0	0	0	0	0	0	1,501,658	0	1,501,658
Petroleum Special Tax	0	0	0	0	0	0	11,529	0	11,529

(Continued)

Exhibit H-6

Grundy County, Tennessee
 Schedule of Detailed Revenues -
 All Governmental Fund Types (Cont.)

	Special Revenue Funds							Debt Service Fund	Total
	General	Courthouse and Jail Maintenance	Solid Waste / Sanitation	Industrial / Economic Development	Drug Control	Constitutional Officers - Fees	Highway / Public Works	General Debt Service	
<u>State of Tennessee (Cont.)</u>									
<u>Other State Revenues (Cont.)</u>									
Registrar's Salary Supplement	\$ 16,380	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,380
Other State Grants	0	0	0	0	0	0	9,997	0	9,997
Other State Revenues	70,214	0	0	0	0	0	0	0	70,214
Total State of Tennessee	\$ 230,148	\$ 0	\$ 21,095	\$ 50,000	\$ 0	\$ 0	\$ 1,720,776	\$ 0	\$ 2,022,019
<u>Federal Government</u>									
<u>Federal Through State</u>									
Community Development	\$ 53,411	\$ 0	\$ 0	\$ 112,119	\$ 0	\$ 0	\$ 0	\$ 0	\$ 165,530
Homeland Security Grants	156,704	0	0	0	0	0	0	0	156,704
Other Federal through State	6,274	0	0	0	0	0	0	0	6,274
<u>Direct Federal Revenue</u>									
Other Direct Federal Revenue	4,000	0	0	0	0	0	0	0	4,000
Total Federal Government	\$ 220,389	\$ 0	\$ 0	\$ 112,119	\$ 0	\$ 0	\$ 0	\$ 0	\$ 332,508
<u>Other Governments and Citizens Groups</u>									
<u>Other Governments</u>									
Contributions	\$ 10,300	\$ 0	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 500,000	\$ 520,300
Total Other Governments and Citizens Groups	\$ 10,300	\$ 0	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 500,000	\$ 520,300
Total	\$ 3,234,528	\$ 35,381	\$ 556,031	\$ 301,173	\$ 6,890	\$ 4,270	\$ 1,997,199	\$ 1,468,948	\$ 7,604,420

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
For the Year Ended June 30, 2006

General Fund

General Government

County Commission

Board and Committee Members Fees	\$	8,400	
Audit Services		4,595	
Dues and Memberships		1,800	
Printing, Stationery, and Forms		889	
Total County Commission			\$ 15,684

Board of Equalization

Board and Committee Members Fees	\$	2,000	
Total Board of Equalization			2,000

Beer Board

Board and Committee Members Fees	\$	50	
Total Beer Board			50

Other Boards and Committees

Contributions	\$	850	
Total Other Boards and Committees			850

County Mayor/Executive

County Official/Administrative Officer	\$	57,804	
Assistant(s)		17,960	
Part-time Personnel		16,640	
Communication		4,384	
Data Processing Services		3,463	
Maintenance & Repair Services - Vehicles		210	
Postal Charges		991	
Travel		1,956	
Office Supplies		1,044	
Total County Mayor/Executive			104,452

County Attorney

County Official/Administrative Officer	\$	1,200	
Legal Services		64,926	
Total County Attorney			66,126

Election Commission

County Official/Administrative Officer	\$	45,043	
Clerical Personnel		5,729	
Board and Committee Members Fees		3,534	
Election Workers		12,121	

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

General Government (Cont.)

Election Commission (Cont.)

In-Service Training	\$	2,768	
Communication		2,985	
Data Processing Services		4,742	
Dues and Memberships		300	
Legal Notices, Recording, and Court Costs		2,652	
Maintenance & Repair Services - Equipment		746	
Postal Charges		1,486	
Printing, Stationery, and Forms		1,817	
Travel		1,972	
Office Supplies		1,808	
Office Equipment		11,586	
Voting Machines		140,500	
Total Election Commission			\$ 239,789

Register of Deeds

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		17,960	
Communication		1,076	
Data Processing Services		6,275	
Dues and Memberships		434	
Postal Charges		275	
Travel		352	
Other Contracted Services		800	
Office Supplies		1,190	
Total Register of Deeds			78,410

County Buildings

Custodial Personnel	\$	6,405	
Communication		4,409	
Maintenance & Repair Services - Buildings		20,296	
Other Contracted Services		5,680	
Custodial Supplies		2,618	
Duplicating Supplies		3,672	
Electricity		33,874	
Natural Gas		11,141	
Water and Sewer		9,759	
Other Supplies and Materials		1,840	
Total County Buildings			99,694

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Finance

Property Assessor's Office

County Official/Administrative Officer	\$	50,048	
Secretary(ies)		22,292	
Part-time Personnel		9,704	
Audit Services		5,005	
Communication		1,921	
Data Processing Services		6,751	
Dues and Memberships		400	
Postal Charges		802	
Printing, Stationery, and Forms		651	
Travel		3,826	
Office Supplies		1,089	
Total Property Assessor's Office			\$ 102,489

County Trustee's Office

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		17,960	
Part-time Personnel		228	
Communication		1,325	
Data Processing Services		4,266	
Dues and Memberships		434	
Postal Charges		4,507	
Printing, Stationery, and Forms		599	
Travel		697	
Office Supplies		1,499	
Total County Trustee's Office			81,563

County Clerk's Office

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		53,532	
Communication		3,090	
Dues and Memberships		434	
Postal Charges		2,581	
Travel		99	
Office Supplies		2,981	
Total County Clerk's Office			112,765

Administration of Justice

Circuit Court

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		65,984	

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Administration of Justice (Cont.)

Circuit Court (Cont.)

Part-time Personnel	\$	7,525	
Jury and Witness Fees		30,870	
Communication		4,004	
Data Processing Services		11,326	
Dues and Memberships		469	
Postal Charges		2,517	
Printing, Stationery, and Forms		598	
Travel		24	
Duplicating Supplies		432	
Office Supplies		14,818	
Total Circuit Court			\$ 188,615

General Sessions Judge

Judge(s)	\$	101,987	
Communication		644	
Travel		608	
Total General Sessions Judge			103,239

Chancery Court

County Official/Administrative Officer	\$	50,048	
Deputy(ies)		17,960	
Part-time Personnel		500	
Communication		1,462	
Data Processing Services		5,565	
Dues and Memberships		444	
Legal Notices, Recording, and Court Costs		190	
Postal Charges		1,218	
Office Supplies		5,548	
Total Chancery Court			82,935

Juvenile Court

Youth Service Officer(s)	\$	23,152	
Part-time Personnel		9,537	
Communication		1,721	
Postal Charges		612	
Rentals		3,600	
Travel		406	
Office Supplies		1,532	
Other Charges		1,500	
Total Juvenile Court			42,060

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Administration of Justice (Cont.)

Other Administration of Justice

Drug Treatment	\$ 1,000	
Total Other Administration of Justice		\$ 1,000

Public Safety

Sheriff's Department

County Official/Administrative Officer	\$ 56,556	
Deputy(ies)	263,621	
Sergeant(s)	577	
School Resource Officer	19,038	
Other Salaries & Wages	24,206	
In-Service Training	7,500	
Communication	599	
Dues and Memberships	50	
Maintenance & Repair Services - Vehicles	23,846	
Postal Charges	995	
Printing, Stationery, and Forms	1,309	
Other Contracted Services	4,590	
Gasoline	63,590	
Office Supplies	4,388	
Tires and Tubes	4,659	
Uniforms	3,119	
Other Supplies and Materials	461	
Liability Insurance	9,983	
Communication Equipment	3,600	
Law Enforcement Equipment	1,964	
Motor Vehicles	25,412	
Total Sheriff's Department		520,063

Administration of the Sexual Offender Registry

Communication	\$ 462	
Total Administration of the Sexual Offender Registry		462

Jail

Accountants/Bookkeepers	\$ 22,631
Guards	165,665
Cafeteria Personnel	14,760
Communication	9,279
Contracts with Other Public Agencies	12,676
Medical and Dental Services	81,031
Transportation - Other than Students	154

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Public Safety (Cont.)

Jail (Cont.)

Custodial Supplies	\$	393	
Electricity		2,606	
Food Supplies		32,015	
Natural Gas		3,950	
Water and Sewer		3,743	
Other Supplies and Materials		<u>2,028</u>	
Total Jail			\$ 350,931

Fire Prevention and Control

Contracts with Other Public Agencies	\$	11,120	
Contributions		<u>2,500</u>	
Total Fire Prevention and Control			13,620

Rescue Squad

Contributions	\$	<u>4,500</u>	
Total Rescue Squad			4,500

Other Emergency Management

Assistant(s)	\$	<u>410</u>	
Total Other Emergency Management			410

County Coroner/Medical Examiner

Pauper Burials	\$	<u>1,500</u>	
Total County Coroner/Medical Examiner			1,500

Other Public Safety

Contributions	\$	2,000	
Other Equipment		<u>101,232</u>	
Total Other Public Safety			103,232

Public Health and Welfare

Local Health Center

Medical Personnel	\$	16,558	
Custodial Personnel		8,960	
Communication		4,969	
Contracts with Government Agencies		12,816	
Dues and Memberships		100	
Postal Charges		900	
Other Contracted Services		126	
Drugs and Medical Supplies		35	

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Public Health and Welfare (Cont.)

Local Health Center (Cont.)

Electricity	\$	4,963	
Natural Gas		2,500	
Office Supplies		1,099	
Water and Sewer		588	
Other Supplies and Materials		<u>1,696</u>	
Total Local Health Center			\$ 55,310

Ambulance/Emergency Medical Services

Contributions	\$	<u>125,000</u>	
Total Ambulance/Emergency Medical Services			125,000

Crippled Children Services

Contracts with Government Agencies	\$	<u>830</u>	
Total Crippled Children Services			830

Regional Mental Health Center

Contributions	\$	<u>7,000</u>	
Total Regional Mental Health Center			7,000

General Welfare Assistance

Contracts with Other Public Agencies	\$	<u>2,465</u>	
Total General Welfare Assistance			2,465

Other Waste Disposal

Communication	\$	857	
Maintenance & Repair Services - Vehicles		101	
Postal Charges		164	
Other Contracted Services		7,673	
Electricity		6,013	
Gasoline		502	
Office Supplies		119	
Water and Sewer		263	
Testing		331	
Other Supplies and Materials		<u>4,054</u>	
Total Other Waste Disposal			20,077

Social, Cultural, and Recreational Services

Senior Citizens Assistance

Contributions	\$	<u>1,500</u>	
Total Senior Citizens Assistance			1,500

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Social, Cultural, and Recreational Services (Cont.)

Libraries

Librarians	\$ 34,435	
Total Libraries		\$ 34,435

Agriculture & Natural Resources

Agriculture Extension Service

Salary Supplements	\$ 44,278	
Communication	3,594	
Duplicating Supplies	821	
Total Agriculture Extension Service		48,693

Soil Conservation

Clerical Personnel	\$ 17,103	
Communication	1,281	
Travel	600	
Other Supplies and Materials	1,495	
Other Charges	451	
Total Soil Conservation		20,930

Other Operations

Tourism

Other Supplies and Materials	\$ 210	
Total Tourism		210

Industrial Development

Contributions	\$ 2,866	
Total Industrial Development		2,866

Other Economic and Community Development

Contracts with Government Agencies	\$ 53,411	
Contributions	4,000	
Other Capital Outlay	29,189	
Total Other Economic and Community Development		86,600

Veterans' Services

Supervisor/Director	\$ 8,978	
Dues and Memberships	25	
Postal Charges	325	
Travel	2,520	
Total Veterans' Services		11,848

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Fund (Cont.)

Other Operations (Cont.)

Other Charges

Building and Contents Insurance	\$	8,951	
Liability Insurance		39,219	
Premiums on Corporate Surety Bonds		3,676	
Trustee's Commission		41,168	
Workers' Compensation Insurance		<u>55,109</u>	
Total Other Charges			\$ 148,123

Contributions to Other Agencies

Contributions	\$	<u>20,869</u>	
Total Contributions to Other Agencies			20,869

Employee Benefits

Social Security	\$	90,758	
State Retirement		71,900	
Medical Insurance		34,430	
Unemployment Compensation		6,602	
Employer Medicare		<u>21,226</u>	
Total Employee Benefits			224,916

Miscellaneous

Other Charges	\$	<u>21,486</u>	
Total Miscellaneous			21,486

Principal on Debt

General Government

Principal on Other Loans	\$	<u>15,912</u>	
Total General Government			15,912

Interest on Debt

General Government

Interest on Other Loans	\$	<u>2,148</u>	
Total General Government			<u>2,148</u>

Total General Fund \$ 3,167,657

Courthouse & Jail Maintenance Fund

General Government

County Buildings

Custodial Personnel	\$	11,130	
Social Security		852	

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Courthouse & Jail Maintenance Fund (Cont.)

General Government (Cont.)

County Buildings (Cont.)

Maintenance & Repair Services - Buildings	\$ 23,274	
Total County Buildings		\$ 35,256

Other Operations

Other Charges

Trustee's Commission	\$ 354	
Total Other Charges		354

Total Courthouse & Jail Maintenance Fund \$ 35,610

Solid Waste/Sanitation Fund

Public Health and Welfare

Convenience Centers

Truck Drivers	\$ 54,931	
Maintenance Personnel	29,792	
Part-time Personnel	98,038	
Social Security	13,981	
Communication	4,745	
Maintenance & Repair Services - Vehicles	15,319	
Disposal Fees	204,560	
Diesel Fuel	37,170	
Electricity	6,409	
Water and Sewer	1,625	
Other Supplies and Materials	3,917	
Solid Waste Equipment	20,323	
Total Convenience Centers		\$ 490,810

Landfill Operation and Maintenance

Contracts with Private Agencies	\$ 10,205	
Other Supplies and Materials	1,063	
Total Landfill Operation and Maintenance		11,268

Other Operations

Other Charges

Trustee's Commission	\$ 10,556	
Total Other Charges		10,556

Total Solid Waste/Sanitation Fund 512,634

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Industrial/Economic Development Fund

Other Operations

Industrial Development

Other Charges	\$	7,710	
Building Purchases		135,010	
Other Construction		124	
Total Industrial Development			\$ 142,844

Principal on Debt

General Government

Principal on Other Loans	\$	26,067	
Total General Government			26,067

Interest on Debt

General Government

Interest on Other Loans	\$	13,150	
Total General Government			13,150

Capital Projects

Public Health and Welfare Projects

Other Charges	\$	8,271	
Total Public Health and Welfare Projects			8,271

Total Industrial/Economic Development Fund \$ 190,332

Drug Control Fund

Public Safety

Drug Enforcement

Law Enforcement Supplies	\$	3,000	
Other Supplies and Materials		600	
Other Charges		495	
Law Enforcement Equipment		50,476	
Total Drug Enforcement			\$ 54,571

Other Operations

Other Charges

Trustee's Commission	\$	240	
Total Other Charges			240

Total Drug Control Fund 54,811

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Constitutional Officers - Fees Fund

Administration of Justice

Chancery Court

Constitutional Officers' Operating Expenses	\$ 4,270	
Total Chancery Court		\$ 4,270

Total Constitutional Officers - Fees Fund \$ 4,270

Highway/Public Works Fund

Highways

Administration

County Official/Administrative Officer	\$ 55,052	
Accountants/Bookkeepers	30,125	
Advertising	861	
Communication	3,266	
Data Processing Services	3,679	
Dues and Memberships	3,261	
Evaluation and Testing	645	
Maintenance & Repair Services - Office Equipment	701	
Postal Charges	269	
Printing, Stationery, and Forms	549	
Rentals	28	
Travel	839	
Electricity	3,640	
Office Supplies	152	
Water and Sewer	278	
Other Charges	160	
Office Equipment	549	
Total Administration		\$ 104,054

Highway and Bridge Maintenance

Supervisor/Director	\$ 30,500
Foremen	30,500
Equipment Operators - Heavy	96,048
Equipment Operators - Light	21,298
Truck Drivers	226,966
Laborers	20,665
Overtime Pay	545
Asphalt - Liquid	141,120
Crushed Stone	308,111
Ice	330
Pipe	33,709
Road Signs	11,047

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Highway and Bridge Maintenance (Cont.)

Small Tools	\$	36	
Other Supplies and Materials		1,191	
Other Charges		1,012	
Total Highway and Bridge Maintenance			\$ 923,078

Operation and Maintenance of Equipment

Mechanic(s)	\$	50,634	
Nightwatchmen		15,038	
Overtime Pay		123	
Maintenance & Repair Services - Equipment		5,246	
Tow-in Services		350	
Diesel Fuel		103,028	
Equipment and Machinery Parts		26,381	
Garage Supplies		1,621	
Gasoline		22,057	
Lubricants		2,959	
Propane Gas		890	
Small Tools		179	
Tires and Tubes		12,680	
Other Supplies and Materials		1,807	
Other Charges		5,385	
Total Operation and Maintenance of Equipment			248,378

Litter and Trash Collection

Laborers	\$	20,880	
Social Security		1,610	
Maintenance & Repair Services - Vehicles		45	
Gasoline		1,000	
Instructional Supplies and Materials		4,314	
Other Supplies and Materials		619	
Total Litter and Trash Collection			28,468

Other Charges

Liability Insurance	\$	26,870	
Trustee's Commission		15,117	
Workers' Compensation Insurance		71,093	
Total Other Charges			113,080

Employee Benefits

Social Security	\$	35,489	
-----------------	----	--------	--

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

Highway/Public Works Fund (Cont.)

Highways (Cont.)

Employee Benefits (Cont.)

State Retirement	\$	48,034	
Employee and Dependent Insurance		273,591	
Employer Medicare		8,676	
Total Employee Benefits			\$ 365,790

Capital Outlay

Engineering Services	\$	34,853	
Other Contracted Services		960	
Bridge Construction		232,708	
Communication Equipment		2,414	
Highway Construction		234,471	
Highway Equipment		133,658	
Motor Vehicles		31,297	
Total Capital Outlay			670,361

Total Highway/Public Works Fund \$ 2,453,209

General Debt Service Fund

Principal on Debt

General Government

Principal on Bonds	\$	140,395	
Principal on Notes		66,000	
Total General Government			\$ 206,395

Education

Principal on Bonds	\$	440,000	
Total Education			440,000

Interest on Debt

General Government

Interest on Bonds	\$	61,249	
Interest on Notes		1,749	
Total General Government			62,998

Education

Interest on Bonds	\$	478,428	
Total Education			478,428

(Continued)

Exhibit H-7

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types (Cont.)

General Debt Service Fund (Cont.)

Other Debt Service

General Government

Trustee's Commission	\$ 12,132	
Other Debt Service	<u>349</u>	
Total General Government		\$ 12,481

Education

Other Debt Issuance Charges	\$ 63,247	
Other Debt Service	<u>1,050</u>	
Total Education		<u>64,297</u>

Total General Debt Service Fund \$ 1,264,599

Total Governmental Funds - Primary Government \$ 7,683,122

Exhibit H-8

Grundy County, Tennessee
Schedule of Detailed Receipts, Disbursements,
and Changes in Cash Balance - City Agency Fund
For the Year Ended June 30, 2006

	<u>Cities - Sales Tax Fund</u>
<u>Cash Receipts</u>	
Local Option Sales Tax	\$ 486,320
Total Cash Receipts	<u>\$ 486,320</u>
<u>Cash Disbursements</u>	
Remittance of Revenues Collected	\$ 481,457
Trustee's Commission	4,863
Total Cash Disbursements	<u>\$ 486,320</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	\$ 0
Cash Balance, July 1, 2005	<u>0</u>
Cash Balance, June 30, 2006	<u><u>\$ 0</u></u>

ANNUAL FINANCIAL REPORT
GRUNDY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF GRUNDY COUNTY, TENNESSEE
FOR THE YEAR ENDED JUNE 30, 2006

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

DIVISION OF COUNTY AUDIT
RICHARD V. NORMENT
Assistant to the Comptroller

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

MICHAEL FORD, CPA, CGFM
Auditor 4

DEVAN FLYNN, CFE
JENI PALADINI
State Auditors

This financial report is available at www.comptroller.state.tn.us

**GRUNDY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF GRUNDY COUNTY, TENNESSEE
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Audit Highlights

Annual Financial Report
Grundy County School Department
For the Year Ended June 30, 2006

Scope

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Grundy County School Department as of and for the year ended June 30, 2006.

Results

Our report on the Grundy County School Department's financial statements expresses an adverse opinion because government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34.

Our audit resulted in six findings and recommendations, which we have reviewed with Grundy County School Department management. Detailed findings, recommendations, and management's responses are included in the Single Audit Report.

Findings

The following are summaries of the audit findings:

GRUNDY COUNTY SCHOOL DEPARTMENT

- ◆ Government-wide financial statements were not presented in accordance with generally accepted accounting principles, resulting in an adverse opinion.
- ◆ Expenditures and encumbrances exceeded appropriations approved by the County Commission in the General Purpose School Fund, and expenditures and other uses exceeded appropriations in the School Federal Projects Fund.
- ◆ Inventory lists maintained by teachers and librarians were not verified by personnel independent of the recordkeeping process. The School Department had not established any procedures to ensure that new assets are added to the inventory or that assets are removed from the inventory when sold or destroyed. Also, some assets were not identified as property of the School Department.
- ◆ Invoices were paid without documentation that goods had been received or services had been rendered.

OTHER FINDINGS

- ◆ County officials had not adopted a central system of accounting, budgeting, and purchasing.
- ◆ Duties were not segregated adequately in the Office of Director of Schools.

INTRODUCTORY SECTION

Grundy County School Officials
June 30, 2006

Official

Phyllis Lusk, Interim Director of Schools

Board of Education

Ronald Givens, Chairman

Frank Clay

James Conry

Harold Dykes

Paul Gallagher

Mike Gifford

Rose Rust

Charles Sanders

Leon Woodlee

FINANCIAL SECTION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

INDEPENDENT AUDITOR'S REPORT

January 19, 2007

Grundy County Director of Schools and
Board of Education
Grundy County, Tennessee

To the Director of Schools and Board of Education:

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Grundy County School Department, a component unit of Grundy County, Tennessee, as of and for the year ended June 30, 2006, as shown on pages 15 through 31, which collectively comprise a portion of the Grundy County School Department's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Grundy County School Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the county's governmental activities are not reasonably determinable.

As described in Note I, the Grundy County School Department has prepared its financial statements on a prescribed basis of accounting that demonstrates compliance with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. These standards require school departments that do not present government-wide financial statements to present fund financial statements in conformity with all the accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements. These standards also require some additional disclosures to be included in the notes to the financial statements, as described in Note I.

In our opinion, because of the effects of the matters discussed in the two preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Grundy County School Department as of June 30, 2006, or the changes in its financial position for the year then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Grundy County School Department as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting prescribed by the Comptroller of the Treasury of the State of Tennessee.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2007, on our consideration of the Grundy County School Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

As described in Note IV.B., Grundy County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.

The budgetary comparison information on pages 35 through 39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Grundy County School Department's basic financial statements. The introductory section and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The miscellaneous schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan
Comptroller of the Treasury

JGM/rc

BASIC FINANCIAL STATEMENTS

Exhibit A

Grundy County, Tennessee
Balance Sheet - Governmental Funds
Grundy County School Department
June 30, 2006

	Major Funds		Total Govern- mental Funds
	General Purpose School	School Federal Projects	
<u>ASSETS</u>			
Equity in Pooled Cash and Investments	\$ 1,299,407	\$ 160,275	\$ 1,459,682
Due from Other Governments	375,121	0	375,121
Property Taxes Receivable	1,465,613	0	1,465,613
Allowance for Uncollectible Property Taxes	(53,473)	0	(53,473)
Total Assets	<u>\$ 3,086,668</u>	<u>\$ 160,275</u>	<u>\$ 3,246,943</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Deferred Revenue - Current Property Taxes	\$ 1,329,392	\$ 0	\$ 1,329,392
Deferred Revenue - Delinquent Property Taxes	77,355	0	77,355
Other Deferred Revenues	43,783	0	43,783
Total Liabilities	<u>\$ 1,450,530</u>	<u>\$ 0</u>	<u>\$ 1,450,530</u>
<u>Fund Balances</u>			
Reserved for Encumbrances	\$ 317,574	\$ 0	\$ 317,574
Reserved for Career Ladder - Extended Contract	55,895	0	55,895
Reserved for Title I Grants to Local Education Agencies	0	6,118	6,118
Reserved for Innovative Education Program Strategies	0	28,554	28,554
Reserved for Special Education - Grants to States	0	75,047	75,047
Other Federal Reserves	0	50,556	50,556
Unreserved, Reported In:			
General Fund	1,262,669	0	1,262,669
Total Fund Balances	<u>\$ 1,636,138</u>	<u>\$ 160,275</u>	<u>\$ 1,796,413</u>
Total Liabilities and Fund Balances	<u>\$ 3,086,668</u>	<u>\$ 160,275</u>	<u>\$ 3,246,943</u>

The notes to the financial statements are an integral part of this statement.

Exhibit B

Grundy County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Governmental Funds
Grundy County School Department
For the Year Ended June 30, 2006

	Major Funds		Total Governmental Funds
	General Purpose School	School Federal Projects	
<u>Revenues</u>			
Local Taxes	\$ 1,839,068	\$ 0	\$ 1,839,068
Licenses and Permits	608	0	608
Charges for Current Services	521,392	0	521,392
Other Local Revenues	74,469	20,412	94,881
State of Tennessee	11,681,544	0	11,681,544
Federal Government	1,525,486	1,782,525	3,308,011
Total Revenues	<u>\$ 15,642,567</u>	<u>\$ 1,802,937</u>	<u>\$ 17,445,504</u>
<u>Expenditures</u>			
Current:			
Instruction	\$ 8,453,042	\$ 1,410,728	\$ 9,863,770
Support Services	4,278,347	336,260	4,614,607
Operation of Non-Instructional Services	1,500,063	0	1,500,063
Capital Outlay	154,913	0	154,913
Debt Service:			
Principal on Debt	80,756	9,739	90,495
Interest on Debt	10,482	531	11,013
Other Debt Service	500,000	0	500,000
Total Expenditures	<u>\$ 14,977,603</u>	<u>\$ 1,757,258</u>	<u>\$ 16,734,861</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 664,964</u>	<u>\$ 45,679</u>	<u>\$ 710,643</u>
<u>Other Financing Sources (Uses)</u>			
Insurance Recovery	\$ 80,549	\$ 0	\$ 80,549
Transfers In	7,909	0	7,909
Transfers Out	0	(7,909)	(7,909)
Total Other Financing Sources (Uses)	<u>\$ 88,458</u>	<u>\$ (7,909)</u>	<u>\$ 80,549</u>
Net Change in Fund Balances	\$ 753,422	\$ 37,770	\$ 791,192
Fund Balance, July 1, 2005	<u>882,716</u>	<u>122,505</u>	<u>1,005,221</u>
Fund Balance, June 30, 2006	<u>\$ 1,636,138</u>	<u>\$ 160,275</u>	<u>\$ 1,796,413</u>

The notes to the financial statements are an integral part of this statement.

Exhibit C-1

Grundy County School Department
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2006

	Private Purpose Trust Fund
	<u>Other Trust Fund</u>
<u>ASSETS</u>	
Current Assets:	
Cash in Bank	\$ 11,430
Total Assets	<u>\$ 11,430</u>
<u>NET ASSETS</u>	
Funds Held in Trust for Scholarships	<u>\$ 11,430</u>
Total Net Assets	<u><u>\$ 11,430</u></u>

The accompanying notes are an integral part of this statement.

Exhibit C-2

Grundy County School Department
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2006

	Private Purpose Trust Fund
	<u>Other Trust Fund</u>
<u>ADDITIONS</u>	
Contributions and Gifts	\$ 11,605
Total Additions	<u>\$ 11,605</u>
<u>DEDUCTIONS</u>	
Awards	<u>\$ 175</u>
Total Deductions	<u>\$ 175</u>
Change in Net Assets	\$ 11,430
Net Assets, July 1, 2005	<u>0</u>
Net Assets, June 30, 2006	<u><u>\$ 11,430</u></u>

The accompanying notes are an integral part of this statement.

GRUNDY COUNTY SCHOOL DEPARTMENT
A COMPONENT UNIT OF GRUNDY COUNTY, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grundy County School Department's financial statements are not presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The School Department has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. The two government-wide financial statements, the statement of net assets and the statement of activities, should be included in the basic financial statements to conform with the provisions of GASB Statement 34 and accounting principles generally accepted in the United States of America. The School Department has elected instead only to implement the provisions of the statement and other accounting principles generally accepted in the United States of America that relate to the fund financial statements. This departure from GAAP results in an incomplete presentation and has caused the School Department's auditor to issue an adverse opinion on the School Department's financial statements.

Although the School Department's financial statements are not presented in conformity with GAAP, the financial statements have been presented in conformity with financial reporting standards adopted by the Comptroller of the Treasury of the State of Tennessee. The Comptroller of the Treasury has adopted financial reporting standards for local governments in Tennessee that do not implement the provisions of GASB Statement 34. These standards require fund financial statements to be presented in conformity with all the provisions of GASB Statement 34 that are applicable to fund financial statements, including the notes to the financial statements. These standards also require the fund financial statements to be presented in conformity with all other accounting principles generally accepted in the United States of America that are applicable to fund financial statements, including the notes to the financial statements.

The following are the more significant accounting policies of the School Department:

A. Reporting Entity

The School Department operates the public school system in the county, and the voters of Grundy County elect its nine-member board. The School Department is a component unit of Grundy County, the primary government. The School Department is fiscally dependent on Grundy County because it may not issue debt without county approval, and its budget and property tax levy are subject to the Grundy County Commission's approval. The School Department's taxes are levied under the taxing authority of Grundy County and are included as part of Grundy County's total tax levy.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Fund financial statements of the School Department are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The School Department has no proprietary funds to report. An emphasis is placed on major funds within the governmental category.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The fiduciary fund is reported in a single column.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School Department considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. The School Department considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Purpose School Fund and the School Federal Projects Fund for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the School Department receives cash.

Fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which have no measurement focus. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The School Department reports the following major governmental funds:

General Purpose School Fund – This fund is the primary operating fund for the School Department. It is used to account for general operations of the School Department.

School Federal Projects Fund – This fund is used to account for restricted federal revenues which must be expended on specific education programs.

Additionally, the School Department reports the following fund type:

Private Purpose Trust Fund – The Other Trust Fund is used to account for savings bond awards given to Grundy County students who win an essay contest and a spelling bee. Money for this fund was provided by a citizen.

C. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

State statutes authorize Grundy County, the School Department's primary government, to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the county's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all Grundy County and Grundy School Department funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the primary government's General Debt Service Fund. Grundy County and the School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds

invested by the state treasurer. All other investments are reported at fair value. No investments required to be reported at fair value were held at the balance sheet date.

2. Receivables and Payables

Property taxes receivable are shown with an allowance for uncollectibles. The allowance for uncollectible property taxes is equal to 1.99 percent of total taxes levied.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

3. Capital Assets

Governmental funds do not capitalize the cost of capital outlays; they report capital outlays as expenditures upon acquisition. The School Department does not maintain capital assets records, as required by generally accepted accounting principles. Capital assets should be reported in the government-wide statement of net assets; however, as

previously noted, the School Department does not present government-wide statements.

4. Compensated Absences

General policy of the School Department does not allow for the accumulation of vacation and sick days beyond the year-end, except for the unlimited accumulation of unused sick days for all professional personnel (teachers). The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

5. Long-term Obligations

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including notes payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations are recognized to the extent that the liabilities have matured (come due for payment) each period.

Governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specified purpose.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds. All annual appropriations lapse at fiscal year end.

The School Department is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Grundy County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction Programs, Attendance, Board of Education, Director of Schools, etc.). Management may make revisions within major categories, but only the Grundy County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The School Department's budgetary basis of accounting is consistent with GAAP, except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and GAAP basis is presented on the face of each budgetary schedule.

B. Expenditures and Encumbrances Exceeded Appropriations

Expenditures and encumbrances exceeded total appropriations approved by the County Commission in the General Purpose School Fund (\$100,244), and expenditures and other uses exceeded appropriations in the School Federal Projects Fund (\$44,813). Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Grundy County and the School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets as Equity in Pooled Cash and Investments.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts

covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county’s own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer’s Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase.

Investment Balances. As of June 30, 2006, Grundy County had the following investment carried at cost. All investments are in the county trustee’s investment pool. Separate disclosures concerning pooled investments cannot be made for Grundy County and the School Department since both pool their deposits and investments through the county trustee.

Investment	Maturities	Cost
State Treasurer's Investment Pool	Daily	\$ 4,813,743
Total		<u>\$ 4,813,743</u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Grundy County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings

of certain investments as previously explained. Grundy County has no investment policy that would further limit its investment choices. As of June 30, 2006, Grundy County's investment in the State Treasurer's Investment Pool was unrated.

B. Insurance Recoveries

During the period examined, the School Department had some minor fire and storm damage to some of its buildings and damage to one of its buses. Insurance recoveries of \$80,549 were received. The proceeds were used to repair the damage to these buildings and the bus.

C. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following amount:

	<u>Transfers In</u>
	General Purpose School Fund
Transfers Out	
School Federal Projects	\$ 7,909
Total	<u>\$ 7,909</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

D. Long-term Debt

Since the School Department is presenting fund financial statements only, long-term debt is not reported as a liability in the financial statements of the governmental funds. Long-term debt for governmental funds is required to be reported as a liability in government-wide financial statements, but the School Department is not presenting government-wide financial statements.

Capital Outlay Notes

Capital outlay notes are issued to fund capital facilities and other capital outlay purchases, such as equipment.

Capital outlay notes are direct obligations and pledge the full faith and credit of the government. Capital outlay notes were issued for original terms of up to six years. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. Capital outlay notes included in the long-term debt as of

June 30, 2006, will be retired from the General Purpose School Fund and the School Federal Projects Fund.

Capital outlay notes outstanding as of June 30, 2006, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-06
Capital Outlay Notes	2.69 to 5.25 %	\$ 452,205	\$ 169,519

The annual requirements to amortize all notes outstanding as of June 30, 2006, including interest payments, are presented in the following table:

Year Ending June 30	Notes	
	Principal	Interest
2007	\$ 71,748	\$ 6,842
2008	64,807	3,881
2009	21,566	1,066
2010	11,398	393
Total	<u>\$ 169,519</u>	<u>\$ 12,182</u>

Debt per capita for these notes totaled \$12, based on the 2000 federal census.

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

Governmental Activities:	Notes
Balance, July 1, 2005	\$ 260,014
Deductions	<u>(90,495)</u>
Balance, June 30, 2006	<u>\$ 169,519</u>
Balance Due Within One Year	<u>\$ 71,748</u>

IV. OTHER INFORMATION

A. Risk Management

The School Department is exposed to various risks related to general liability, property, casualty, and workers' compensation. The School Department is a member of the Local Government Property and Casualty

Fund (LGPCF) and the Local Government Workers' Compensation Fund, which are public entity risk pools established by the Tennessee County Services Association, an association of member counties. The School Department pays annual premiums to these pools for general liability, property, casualty losses, and workers' compensation insurance coverage. The creation of these pools provides for them to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims more than \$100,000 for each insured event.

The School Department provides health insurance coverage to its employees through the Local Government Group Insurance Fund (LGGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that was established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, Tennessee Code Annotated, all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by the fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

B. Accounting Changes

For the year ended June 30, 2006, Grundy County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. GASB Statement No. 42 requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. In addition, GASB Statement No. 42 clarifies and establishes accounting requirements for insurance recoveries.

The provisions of GASB Statement No. 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) became effective for the year ended June 30, 2006. GASB Statement No. 44 applies to the preparation of the statistical section. State and local governments may, but are not required to, prepare a statistical section to accompany basic financial statements. However, a statistical section is required to accompany a comprehensive annual financial report. Since Grundy County is not presenting a comprehensive annual financial report, it has elected not to prepare a statistical section. A limited statistical section was presented in the prior year's report. GASB Statement No. 44 amends guidance related to the preparation of the statistical section. This statement improves the understandability and usefulness of statistical information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by GASB Statement No. 34. GASB Statement No. 44 establishes the objectives of the statistical section and the five categories it contains: financial trends, revenue capacity, debt capacity, demographic and

economic, and operating. It is reasonably expected that Grundy County will prepare and present a statistical section in subsequent years that follows the requirements of GASB Statement No. 44.

The provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34 became effective for the year ended June 30, 2006. GASB Statement No. 46 provides guidance to determine when net assets have been restricted to a particular use by the passage of enabling legislation and specifies how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. The statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. The School Department had no net assets restricted by enabling legislation to disclose as of June 30, 2006. But it is reasonably expected that the School Department will be required to disclose net assets restricted by enabling legislation in subsequent years.

The provisions of GASB Statement No. 47, Accounting for Termination Benefits became effective for the year ended June 30, 2006. GASB Statement No. 47 provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees who are involuntarily terminated. Statement No. 47 specifies when governments should recognize the cost of termination benefits they offer in accrual basis financial statements. The School Department was not offering any termination benefits to employees as of June 30, 2006. But it is reasonably expected that the School Department will offer termination benefits in subsequent years subject to the accounting and reporting requirements of GASB Statement No. 47.

C. Subsequent Event

Interim director of schools, Phyllis Lusk, left office September 12, 2006, and was succeeded by Joel Hargis, effective September 13, 2006.

D. Contingent Liabilities

The School Department's attorney is not aware of any pending or threatened lawsuits that would materially affect the financial statements of the School Department.

E. Change in Administration

On June 1, 2006, David Dickerson resigned from the Office of Director of Schools and was succeeded by Phyllis Lusk as the interim director of schools.

F. Retirement Commitments

Plan Description

Employees of Grundy County, including the School Department, are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-

employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Grundy County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Since the School Department participates in Grundy County's plan, retirement information for the School Department is not available separately from the retirement information provided for the county. Complete disclosure for the county's participation in the TCRS is described in footnote IV.H. of the Annual Financial Report of Grundy County, Tennessee.

SCHOOL TEACHERS

Plan Description

The School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service

who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/Schools/>.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the School department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2006, was 5.5 percent of annual covered payroll. The employer contribution requirement for the School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004, were \$462,542, \$457,589, and \$265,884, respectively, equal to the required contributions for each year.

G. Purchasing Law

Purchasing procedures for the School Department are governed by purchasing laws applicable to the schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the county Board of Education, through its executive committee (director of schools and the chairman of the Board of Education), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases exceeding \$10,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit D-1

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Grundy County School Department
General Purpose School Fund
For the Year Ended June 30, 2006

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Revenues</u>							
Local Taxes	\$ 1,839,068	\$ 0	\$ 0	\$ 1,839,068	\$ 1,729,754	\$ 1,729,754	\$ 109,314
Licenses and Permits	608	0	0	608	600	600	8
Charges for Current Services	521,392	0	0	521,392	514,000	514,000	7,392
Other Local Revenues	74,469	0	0	74,469	10,000	53,678	20,791
State of Tennessee	11,681,544	0	0	11,681,544	11,043,331	11,046,371	635,173
Federal Government	1,525,486	0	0	1,525,486	1,487,633	1,715,275	(189,789)
Total Revenues	\$ 15,642,567	\$ 0	\$ 0	\$ 15,642,567	\$ 14,785,318	\$ 15,059,678	\$ 582,889
<u>Expenditures</u>							
<u>Instruction</u>							
Regular Instruction Program	\$ 5,897,885	\$ 0	\$ 118,500	\$ 6,016,385	\$ 5,856,050	\$ 5,925,098	\$ (91,287)
Alternative Instruction Program	131,704	0	0	131,704	155,172	155,172	23,468
Special Education Program	1,835,531	0	3,897	1,839,428	1,862,227	1,859,027	19,599
Vocational Education Program	513,486	0	0	513,486	523,764	521,947	8,461
Student Body Education Program	18,595	0	0	18,595	19,000	19,100	505
Adult Education Program	55,841	0	509	56,350	49,557	49,557	(6,793)
<u>Support Services</u>							
Attendance	33,912	0	0	33,912	51,057	52,092	18,180
Health Services	69,749	0	0	69,749	68,478	68,478	(1,271)
Other Student Support	250,640	0	0	250,640	249,215	253,872	3,232
Regular Instruction Program	175,103	0	0	175,103	172,676	175,726	623
Special Education Program	200,887	0	0	200,887	223,911	196,089	(4,798)
Vocational Education Program	78,858	0	0	78,858	77,829	78,929	71
Adult Programs	60,455	0	0	60,455	64,174	66,274	5,819
Board of Education	193,482	0	25,000	218,482	203,068	203,068	(15,414)
Director of Schools	129,051	0	0	129,051	135,863	135,863	6,812

(Continued)

Exhibit D-1

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Grundy County School Department
General Purpose School Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Expenditures (Cont.)</u>							
<u>Support Services (Cont.)</u>							
Office of the Principal	\$ 582,831	\$ 0	\$ 0	\$ 582,831	\$ 588,313	\$ 595,236	\$ 12,405
Fiscal Services	93,902	0	0	93,902	80,886	80,886	(13,016)
Operation of Plant	915,681	(300)	0	915,381	886,328	893,196	(22,185)
Maintenance of Plant	309,399	0	7,657	317,056	301,597	301,597	(15,459)
Transportation	459,000	0	134,976	593,976	446,774	460,180	(133,796)
Central and Other	725,397	0	0	725,397	595,823	765,710	40,313
<u>Operation of Non-Instructional Services</u>							
Food Service	1,376,038	0	0	1,376,038	1,405,444	1,406,782	30,744
Community Services	33,316	0	0	33,316	33,300	33,300	(16)
Early Childhood Education	90,709	0	1,200	91,909	0	91,910	1
<u>Capital Outlay</u>							
Regular Capital Outlay	154,913	0	25,835	180,748	124,000	202,926	22,178
<u>Principal on Debt</u>							
Education	80,756	0	0	80,756	89,350	89,350	8,594
<u>Interest on Debt</u>							
Education	10,482	0	0	10,482	13,268	13,268	2,786
<u>Other Debt Service</u>							
Education	500,000	0	0	500,000	0	500,000	0
Total Expenditures	\$ 14,977,603	\$ (300)	\$ 317,574	\$ 15,294,877	\$ 14,277,124	\$ 15,194,633	\$ (100,244)
<u>Excess (Deficiency) of Revenues</u>							
Over Expenditures	\$ 664,964	\$ 300	\$ (317,574)	\$ 347,690	\$ 508,194	\$ (134,955)	\$ 482,645
<u>Other Financing Sources (Uses)</u>							
Insurance Recovery	\$ 80,549	\$ 0	\$ 0	\$ 80,549	\$ 0	\$ 80,549	\$ 0

(Continued)

Exhibit D-1

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
Grundy County School Department
General Purpose School Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2005	Add: Encumbrances 6/30/2006	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
<u>Other Financing Sources (Uses) (Cont.)</u>							
Transfers In	\$ 7,909	\$ 0	\$ 0	\$ 7,909	\$ 4,500	\$ 4,500	\$ 3,409
Transfers Out	0	0	0	0	(500,000)	0	0
Total Other Financing Sources (Uses)	\$ 88,458	\$ 0	\$ 0	\$ 88,458	\$ (495,500)	\$ 85,049	\$ 3,409
Net Change in Fund Balance	\$ 753,422	\$ 300	\$ (317,574)	\$ 436,148	\$ 12,694	\$ (49,906)	\$ 486,054
Fund Balance, July 1, 2005	882,716	(300)	0	882,416	709,125	709,125	173,291
Fund Balance, June 30, 2006	\$ 1,636,138	\$ 0	\$ (317,574)	\$ 1,318,564	\$ 721,819	\$ 659,219	\$ 659,345

Exhibit D-2

Grundy County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Grundy County School Department
School Federal Projects Fund
For the Year Ended June 30, 2006

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<u>Revenues</u>				
Other Local Revenues	\$ 20,412	\$ 0	\$ 0	\$ 20,412
Federal Government	1,782,525	1,720,354	1,720,354	62,171
Total Revenues	\$ 1,802,937	\$ 1,720,354	\$ 1,720,354	\$ 82,583
<u>Expenditures</u>				
<u>Instruction</u>				
Regular Instruction Program	\$ 748,356	\$ 673,267	\$ 673,267	\$ (75,089)
Special Education Program	576,642	615,697	612,797	36,155
Vocational Education Program	85,730	75,159	75,159	(10,571)
<u>Support Services</u>				
Other Student Support	16,072	95,519	95,519	79,447
Regular Instruction Program	265,111	189,938	189,938	(75,173)
Special Education Program	41,905	33,610	36,510	(5,395)
Vocational Education Program	6,148	0	0	(6,148)
Operation of Plant	0	2,000	2,000	2,000
Transportation	7,024	31,164	20,894	13,870
<u>Principal on Debt</u>				
Education	9,739	0	9,739	0
<u>Interest on Debt</u>				
Education	531	0	531	0
Total Expenditures	\$ 1,757,258	\$ 1,716,354	\$ 1,716,354	\$ (40,904)
Excess (Deficiency) of Revenues Over Expenditures	\$ 45,679	\$ 4,000	\$ 4,000	\$ 41,679
<u>Other Financing Sources (Uses)</u>				
Transfers Out	\$ (7,909)	\$ (4,000)	\$ (4,000)	\$ (3,909)
Total Other Financing Sources (Uses)	\$ (7,909)	\$ (4,000)	\$ (4,000)	\$ (3,909)
Net Change in Fund Balance	\$ 37,770	\$ 0	\$ 0	\$ 37,770
Fund Balance, July 1, 2005	122,505	82,641	82,641	39,864
Fund Balance, June 30, 2006	\$ 160,275	\$ 82,641	\$ 82,641	\$ 77,634

**GRUNDY COUNTY SCHOOL DEPARTMENT, TENNESSEE
A COMPONENT UNIT OF GRUNDY COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006**

A. BUDGETARY INFORMATION

The School Department is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the Grundy County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Purpose School Fund major categories: Regular Instruction, Special Education Program, Vocational Education Program, Adult Education Program, etc.). Management may make revisions within major categories, but only the Grundy County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The School Department's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary schedule.

B. EXPENDITURES AND ENCUMBRANCES EXCEEDED APPROPRIATIONS

Expenditures and encumbrances exceeded total appropriations approved by the Grundy County Commission in the General Purpose School Fund (\$100,244), and expenditures and other uses exceeded appropriations in the School Federal Projects Fund (\$44,813). Such overexpenditures are a violation of state statutes. These overexpenditures were funded by greater than anticipated revenues.

MISCELLANEOUS SCHEDULES

Exhibit E-1

Grundy County, Tennessee
Schedule of Changes in Long-term Notes
Grundy County School Department
For the Year Ended June 30, 2006

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7-1-05	Paid and/or Matured During Period	Outstanding 6-30-06
<u>NOTES PAYABLE</u>							
<u>Payable through General Purpose School Fund</u>							
School Buses	\$ 95,980	6.1 %	8-8-00	8-13-05	\$ 21,583	\$ 21,583	\$ 0
School Capital Improvements	175,000	5.25	10-17-01	10-25-07	94,513	29,769	64,744
School Bus	48,682	3.85	8-21-02	8-21-07	30,322	9,724	20,598
School Bus	50,000	2.71	7-29-03	7-29-08	40,537	9,726	30,811
School Bus	53,318	3.4	10-18-04	10-18-09	53,318	9,954	43,364
Total Payable through General Purpose School Fund					<u>\$ 240,273</u>	<u>\$ 80,756</u>	<u>\$ 159,517</u>
<u>Payable through School Federal Projects Fund</u>							
Special Education Bus	29,225	2.69	9-29-03	9-29-06	\$ 19,741	\$ 9,739	\$ 10,002
Total Notes Payable					<u>\$ 260,014</u>	<u>\$ 90,495</u>	<u>\$ 169,519</u>

Exhibit E-2

Grundy County, Tennessee
Schedule of Transfers
Grundy County School Department
For the Year Ended June 30, 2006

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
School Federal Projects	General Purpose School	Indirect costs	<u>\$ 7,909</u>
Total Transfers			<u><u>\$ 7,909</u></u>

Exhibit E-3

Grundy County, Tennessee
Schedule of Salaries and Official Bonds of Principal Officials
Grundy County School Department
For the Year Ended June 30, 2006

Official	Authorization for Salary	Salary Paid During Period	Bond	Surety
Director of Schools: David Dickerson (7-1-05 to 6-1-06)	State Board of Education and Grundy County Board of Education	\$ 71,885 (1)	\$ 100,000	Western Surety Company
Phyllis Lusk (6-2-06 to 6-30-06)	State Board of Education and Grundy County Board of Education	5,344	100,000	"
Public Employees Blanket Bond			150,000	Local Government Insurance Pool

(1) Includes chief executive officer training supplement of \$900.

Exhibit E-4

Grundy County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Grundy County School Department
For the Year Ended June 30, 2006

	General Purpose School	School Federal Projects	Total
<u>Local Taxes</u>			
<u>County Property Taxes</u>			
Current Property Tax	\$ 1,226,886	\$ 0	\$ 1,226,886
Trustee's Collections - Prior Year	99,897	0	99,897
Circuit/Clerk & Master Collections - Prior Years	26,706	0	26,706
Interest and Penalty	17,591	0	17,591
Payments in-Lieu-of Taxes - T.V.A.	1,472	0	1,472
Payments in-Lieu-of Taxes - Local Utilities	4	0	4
Payments in-Lieu-of Taxes - Other	5,325	0	5,325
<u>County Local Option Taxes</u>			
Local Option Sales Tax	443,518	0	443,518
Business Tax	14,488	0	14,488
<u>Statutory Local Taxes</u>			
Coal Severance Tax	699	0	699
Interstate Telecommunications Tax	2,482	0	2,482
Total Local Taxes	<u>\$ 1,839,068</u>	<u>\$ 0</u>	<u>\$ 1,839,068</u>
<u>Licenses and Permits</u>			
<u>Licenses</u>			
Marriage Licenses	\$ 608	\$ 0	\$ 608
Total Licenses and Permits	<u>\$ 608</u>	<u>\$ 0</u>	<u>\$ 608</u>
<u>Charges for Current Services</u>			
<u>Education Charges</u>			
Tuition - Other	\$ 46,061	\$ 0	\$ 46,061
Receipts from Individual Schools	475,331	0	475,331
Total Charges for Current Services	<u>\$ 521,392</u>	<u>\$ 0</u>	<u>\$ 521,392</u>
<u>Other Local Revenues</u>			
<u>Recurring Items</u>			
Miscellaneous Refunds	\$ 73,734	\$ 20,412	\$ 94,146
<u>Nonrecurring Items</u>			
Contributions & Gifts	735	0	735
Total Other Local Revenues	<u>\$ 74,469</u>	<u>\$ 20,412</u>	<u>\$ 94,881</u>
<u>State of Tennessee</u>			
<u>State Education Funds</u>			
Basic Education Program	\$ 10,865,062	\$ 0	\$ 10,865,062
School Food Service	13,672	0	13,672
Driver Education	6,552	0	6,552
Other State Education Funds	159,969	0	159,969
Career Ladder Program	146,755	0	146,755
Career Ladder - Extended Contract	55,800	0	55,800

(Continued)

Exhibit E-4

Grundy County, Tennessee
Schedule of Detailed Revenues -
All Governmental Fund Types
Grundy County School Department (Cont.)

	General Purpose School	School Federal Projects	Total
<u>State of Tennessee (Cont.)</u>			
<u>Other State Revenues</u>			
State Revenue Sharing - T.V.A.	274,306	0	274,306
Other State Grants	91,548	0	91,548
Other State Revenues	67,880	0	67,880
Total State of Tennessee	\$ 11,681,544	\$ 0	\$ 11,681,544
<u>Federal Government</u>			
<u>Federal Through State</u>			
USDA School Lunch Program	\$ 569,291	\$ 0	\$ 569,291
Breakfast	260,674	0	260,674
USDA - Other	7,799	0	7,799
Adult Education State Grant Program	75,142	0	75,142
Vocational Education - Basic Grants to States	31,736	93,579	125,315
Title I Grants to Local Education Agencies	0	725,584	725,584
Innovative Education Program Strategies	0	88,582	88,582
Special Education - Grants to States	0	647,553	647,553
Special Education Preschool Grants	0	32,272	32,272
Eisenhower Professional Development State Grants	0	174,927	174,927
Other Federal through State	580,844	20,028	600,872
Total Federal Government	\$ 1,525,486	\$ 1,782,525	\$ 3,308,011
Total	\$ 15,642,567	\$ 1,802,937	\$ 17,445,504

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department
For the Year Ended June 30, 2006

General Purpose School Fund

Instruction

Regular Instruction Program

Teachers	\$ 4,401,622	
Career Ladder Program	80,845	
Career Ladder Extended Contracts	32,400	
Homebound Teachers	42,173	
Educational Assistants	80,561	
Other Salaries & Wages	24,472	
Non-certified Substitute Teachers	109,201	
Social Security	279,723	
State Retirement	252,541	
Life Insurance	321	
Medical Insurance	308,882	
Employer Medicare	65,419	
Other Contracted Services	5,233	
Instructional Supplies and Materials	91,008	
Textbooks	115,418	
Regular Instruction Equipment	8,066	
Total Regular Instruction Program		\$ 5,897,885

Alternative Instruction Program

Teachers	\$ 89,389	
Career Ladder Program	2,000	
Educational Assistants	8,592	
Other Salaries & Wages	6,000	
Social Security	5,805	
State Retirement	5,454	
Life Insurance	26	
Medical Insurance	11,790	
Employer Medicare	1,358	
Instructional Supplies and Materials	825	
Other Supplies and Materials	465	
Total Alternative Instruction Program		131,704

Special Education Program

Teachers	\$ 1,288,912
Career Ladder Program	26,699
Educational Assistants	77,121
Other Salaries & Wages	53,347
Non-certified Substitute Teachers	1,336
Social Security	85,604

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Instruction (Cont.)

Special Education Program (Cont.)

State Retirement	\$	78,152	
Life Insurance		816	
Medical Insurance		86,948	
Employer Medicare		20,020	
Other Contracted Services		4,474	
Instructional Supplies and Materials		109,356	
Other Supplies and Materials		2,746	
Total Special Education Program			\$ 1,835,531

Vocational Education Program

Teachers	\$	389,537	
Career Ladder Program		4,000	
Educational Assistants		17,521	
Social Security		24,263	
State Retirement		23,285	
Life Insurance		64	
Medical Insurance		26,675	
Employer Medicare		5,674	
Instructional Supplies and Materials		21,255	
Other Charges		200	
Vocational Instruction Equipment		1,012	
Total Vocational Education Program			513,486

Student Body Education Program

Other Contracted Services	\$	18,381	
Other Equipment		214	
Total Student Body Education Program			18,595

Adult Education Program

Teachers	\$	23,804	
Other Salaries & Wages		8,316	
Social Security		1,991	
State Retirement		2,787	
Life Insurance		64	
Employer Medicare		466	
Instructional Supplies and Materials		18,294	
Other Charges		119	
Total Adult Education Program			55,841

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services

Attendance

Career Ladder Program	\$	1,000	
Other Salaries & Wages		17,962	
Social Security		1,176	
State Retirement		766	
Employer Medicare		275	
Travel		1,521	
Other Contracted Services		8,527	
Other Supplies and Materials		1,685	
Other Charges		1,000	
Total Attendance			\$ 33,912

Health Services

Medical Personnel	\$	32,542	
Other Salaries & Wages		20,913	
Social Security		3,198	
State Retirement		3,751	
Life Insurance		32	
Medical Insurance		2,990	
Employer Medicare		748	
Travel		645	
Drugs and Medical Supplies		4,930	
Total Health Services			69,749

Other Student Support

Career Ladder Program	\$	6,000	
Guidance Personnel		152,759	
Career Ladder Extended Contracts		4,000	
Secretary(ies)		9,190	
Other Salaries & Wages		10,432	
Social Security		10,489	
State Retirement		9,856	
Life Insurance		34	
Medical Insurance		12,245	
Employer Medicare		2,453	
Evaluation and Testing		10,516	
Travel		3,353	
Other Supplies and Materials		2,042	
Other Charges		13,116	
Other Equipment		4,155	
Total Other Student Support			250,640

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Regular Instruction Program

Supervisor/Director	\$	51,334	
Career Ladder Program		2,000	
Career Ladder Extended Contracts		4,302	
Librarians		76,812	
Social Security		7,853	
State Retirement		7,394	
Medical Insurance		9,245	
Employer Medicare		1,837	
Travel		2,241	
Library Books/Media		4,998	
In Service/Staff Development		7,087	
Total Regular Instruction Program			\$ 175,103

Special Education Program

Supervisor/Director	\$	52,267	
Career Ladder Program		1,000	
Psychological Personnel		38,414	
Other Salaries & Wages		23,115	
Social Security		7,015	
State Retirement		5,245	
Medical Insurance		2,808	
Employer Medicare		1,641	
Travel		26,918	
Other Contracted Services		1,457	
In Service/Staff Development		5,143	
Other Charges		35,864	
Total Special Education Program			200,887

Vocational Education Program

Supervisor/Director	\$	62,195	
Career Ladder Program		1,999	
Career Ladder Extended Contracts		2,000	
Social Security		3,877	
State Retirement		3,531	
Medical Insurance		2,808	
Employer Medicare		907	
Travel		1,541	
Total Vocational Education Program			78,858

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Adult Programs

Supervisor/Director	\$	49,380	
Social Security		2,963	
State Retirement		2,716	
Medical Insurance		2,699	
Employer Medicare		693	
Communication		627	
Travel		160	
In Service/Staff Development		1,217	
Total Adult Programs			\$ 60,455

Board of Education

Board and Committee Members Fees	\$	7,900	
Social Security		490	
State Retirement		96	
Unemployment Compensation		8,969	
Employer Medicare		115	
Audit Services		9,800	
Dues and Memberships		8,910	
Legal Services		8,236	
Liability Insurance		27,814	
Premiums on Corporate Surety Bonds		850	
Trustee's Commission		70,819	
Workers' Compensation Insurance		46,346	
Other Charges		3,137	
Total Board of Education			193,482

Director of Schools

County Official/Administrative Officer	\$	70,985	
Career Ladder Program		900	
Clerical Personnel		17,367	
Social Security		5,534	
State Retirement		4,282	
Life Insurance		42	
Employer Medicare		1,294	
Communication		27,031	
Travel		903	
Office Supplies		463	
Other Charges		250	
Total Director of Schools			129,051

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Office of the Principal

Principals	\$	374,874	
Career Ladder Program		9,966	
Career Ladder Extended Contracts		4,519	
Assistant Principals		45,027	
Secretary(ies)		32,244	
Clerical Personnel		23,622	
Social Security		28,882	
State Retirement		28,883	
Life Insurance		159	
Medical Insurance		27,900	
Employer Medicare		6,755	
Total Office of the Principal			\$ 582,831

Fiscal Services

Accountants/Bookkeepers	\$	37,860	
Secretary(ies)		14,244	
Social Security		3,230	
State Retirement		4,887	
Life Insurance		95	
Employer Medicare		756	
Travel		228	
Other Contracted Services		23,030	
Office Supplies		8,572	
Other Charges		1,000	
Total Fiscal Services			93,902

Operation of Plant

Custodial Personnel	\$	227,636	
Social Security		13,263	
State Retirement		8,640	
Life Insurance		297	
Employer Medicare		3,102	
Other Contracted Services		7,963	
Custodial Supplies		81,982	
Electricity		368,365	
Natural Gas		111,377	
Water and Sewer		41,140	
Building and Contents Insurance		47,707	
Other Charges		4,209	
Total Operation of Plant			915,681

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Maintenance of Plant

Supervisor/Director	\$	44,691	
Secretary(ies)		13,417	
Maintenance Personnel		80,147	
Social Security		8,078	
State Retirement		10,682	
Life Insurance		127	
Medical Insurance		2,792	
Employer Medicare		1,889	
Maintenance & Repair Services - Equipment		80,038	
Other Supplies and Materials		67,538	
Total Maintenance of Plant			\$ 309,399

Transportation

Supervisor/Director	\$	23,759	
Mechanic(s)		43,362	
Bus Drivers		204,252	
Social Security		16,738	
State Retirement		22,499	
Life Insurance		792	
Employer Medicare		3,915	
Communication		2,309	
Medical and Dental Services		7,579	
Other Contracted Services		1,065	
Gasoline		87,994	
Tires and Tubes		7,188	
Vehicle Parts		20,296	
Other Supplies and Materials		3,439	
Vehicle and Equipment Insurance		13,450	
Other Charges		363	
Total Transportation			459,000

Central and Other

Supervisor/Director	\$	154,539
Clerical Personnel		14,816
Other Salaries & Wages		323,411
In-Service Training		5,000
Social Security		28,339
State Retirement		23,598
Life Insurance		58

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Support Services (Cont.)

Central and Other (Cont.)

Medical Insurance	\$	12,477	
Employer Medicare		6,628	
Other Fringe Benefits		1,350	
Communication		3,491	
Consultants		2,617	
Travel		12,255	
Other Contracted Services		4,926	
Other Supplies and Materials		54,889	
In Service/Staff Development		38,197	
Other Charges		14,551	
Other Equipment		24,255	
Total Central and Other			\$ 725,397

Operation of Non-Instructional Services

Food Service

Supervisor/Director	\$	3,000	
Cafeteria Personnel		441,930	
Other Salaries & Wages		16,370	
Social Security		28,578	
State Retirement		34,750	
Life Insurance		1,012	
Employer Medicare		6,684	
Payments to Schools - Breakfast		257,175	
Payments to Schools - Lunch		563,898	
Payments to Schools - Other		7,799	
Travel		465	
In Service/Staff Development		1,521	
Other Charges		3,879	
Food Service Equipment		8,977	
Total Food Service			1,376,038

Community Services

Supervisor/Director	\$	20,254	
Social Security		1,262	
State Retirement		1,909	
Life Insurance		32	
Employer Medicare		295	
Other Charges		9,564	
Total Community Services			33,316

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

General Purpose School Fund (Cont.)

Operation of Non-Instructional Services (Cont.)

Early Childhood Education

Supervisor/Director	\$	28,420	
Clerical Personnel		999	
Educational Assistants		8,581	
Social Security		2,350	
State Retirement		2,051	
Life Insurance		26	
Employer Medicare		550	
Travel		1,002	
Other Charges		9,737	
Other Capital Outlay		36,993	
Total Early Childhood Education			\$ 90,709

Capital Outlay

Regular Capital Outlay

Building Construction	\$	33,312	
Site Development		9,000	
Other Capital Outlay		112,601	
Total Regular Capital Outlay			154,913

Principal on Debt

Education

Principal on Notes	\$	80,756	
Total Education			80,756

Interest on Debt

Education

Interest on Notes	\$	10,482	
Total Education			10,482

Other Debt Service

Education

Debt Service Contribution to Primary Government	\$	500,000	
Total Education			500,000

Total General Purpose School Fund \$ 14,977,603

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

School Federal Projects Fund

Instruction

Regular Instruction Program

Teachers	\$	468,574	
Educational Assistants		106,735	
Other Salaries & Wages		570	
Certified Substitute Teachers		1,219	
Non-certified Substitute Teachers		5,309	
Social Security		33,522	
State Retirement		33,221	
Life Insurance		350	
Medical Insurance		33,225	
Employer Medicare		7,840	
Instructional Supplies and Materials		56,023	
Other Supplies and Materials		971	
Regular Instruction Equipment		797	
Total Regular Instruction Program			\$ 748,356

Special Education Program

Educational Assistants	\$	218,152	
Other Salaries & Wages		209,792	
Social Security		26,070	
State Retirement		28,624	
Medical Insurance		5,871	
Employer Medicare		6,097	
Other Contracted Services		61,923	
Instructional Supplies and Materials		20,113	
Total Special Education Program			576,642

Vocational Education Program

Other Contracted Services	\$	6,480	
Other Supplies and Materials		14,853	
Other Charges		812	
Vocational Instruction Equipment		63,585	
Total Vocational Education Program			85,730

Support Services

Other Student Support

Other Salaries & Wages	\$	6,208	
Social Security		390	
State Retirement		346	
Employer Medicare		91	

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Other Student Support (Cont.)

Evaluation and Testing	\$	3,686	
Other Supplies and Materials		4,806	
Other Charges		545	
Total Other Student Support			\$ 16,072

Regular Instruction Program

Supervisor/Director	\$	51,630	
Secretary(ies)		16,764	
Other Salaries & Wages		29,814	
Social Security		6,288	
State Retirement		6,339	
Medical Insurance		4,199	
Employer Medicare		1,471	
Communication		2,027	
Travel		3,459	
Other Contracted Services		3,401	
Other Supplies and Materials		24,276	
In Service/Staff Development		103,186	
Regular Instruction Equipment		12,257	
Total Regular Instruction Program			265,111

Special Education Program

Other Salaries & Wages	\$	24,686	
Social Security		1,305	
State Retirement		1,936	
Employer Medicare		305	
Travel		2,512	
Other Contracted Services		3,066	
In Service/Staff Development		8,095	
Total Special Education Program			41,905

Vocational Education Program

Travel	\$	5,992	
In Service/Staff Development		156	
Total Vocational Education Program			6,148

Transportation

Other Salaries & Wages	\$	6,277	
Social Security		129	

(Continued)

Exhibit E-5

Grundy County, Tennessee
Schedule of Detailed Expenditures -
All Governmental Fund Types
Grundy County School Department (Cont.)

School Federal Projects Fund (Cont.)

Support Services (Cont.)

Transportation (Cont.)

Employer Medicare	\$ 30	
Other Charges	<u>588</u>	
Total Transportation		\$ 7,024

Principal on Debt

Education

Principal on Notes	\$ 9,739	
Total Education		9,739

Interest on Debt

Education

Interest on Notes	\$ 531	
Total Education		<u>531</u>

Total School Federal Projects Fund \$ 1,757,258

Total Governmental Funds - Grundy County School Department \$ 16,734,861

SINGLE AUDIT REPORT
GRUNDY COUNTY, TENNESSEE
AND
GRUNDY COUNTY SCHOOL DEPARTMENT
FOR THE YEAR ENDED JUNE 30, 2006

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

DIVISION OF COUNTY AUDIT
RICHARD V. NORMENT
Assistant to the Comptroller

ARTHUR L. ALEXANDER
Director

CARL LOWE, CGFM
Audit Manager

MICHAEL FORD, CPA, CGFM
Auditor 4

DEVAN FLYNN, CFE
JENI PALADENI
State Auditors

This report is available at www.comptroller.state.tn.us

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. GRUNDY STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841**

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 19, 2007

Grundy County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Grundy County, Tennessee

To the County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education:

We have audited the financial statements of each major fund, and the aggregate remaining fund information of Grundy County, Tennessee, and the Grundy County School Department as of and for the year ended June 30, 2006, which collectively comprise a portion of Grundy County's and the Grundy County School Department's basic financial statements and have issued our reports thereon dated January 19, 2007. Our reports on the financial statements of Grundy County, Tennessee, and the Grundy County School Department express adverse opinions because the government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the auditing standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grundy County's and the Grundy County School Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control

over financial reporting that, in our judgment, could adversely affect Grundy County's and the Grundy County School Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.03, 06.04, 06.06, 06.07, 06.09, and 06.10.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grundy County's and the Grundy County School Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and are described in the accompanying Schedule of Findings and Questioned Costs as items 06.01, 06.02, 06.05, and 06.08.

We have also noted certain matters that we reported to the management of Grundy County and the Grundy County School Department in separate communications.

This report is intended solely for the information and use of the Board of County Commissioners, Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John G. Morgan
Comptroller of the Treasury

JGM/rc



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF COUNTY AUDIT
SUITE 1500
JAMES K. GRUNDY STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0269
PHONE (615) 401-7841

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

January 19, 2007

Grundy County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education
Grundy County, Tennessee

To the County Mayor, Board of County Commissioners,
Director of Schools, and Board of Education:

Compliance

We have audited the compliance of Grundy County and the Grundy County School Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of their major federal programs for the year ended June 30, 2006. Grundy County's and the Grundy County School Department's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of their major federal programs is the responsibility of Grundy County's and the Grundy County School Department's management. Our responsibility is to express an opinion on Grundy County's and the Grundy County School Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and

material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grundy County's and the Grundy County School Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Grundy County's and the Grundy County School Department's compliance with those requirements.

In our opinion, Grundy County and the Grundy County School Department complied, in all material respects, with the requirements referred to above that are applicable to each of their major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Grundy County and the Grundy County School Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Grundy County's and the Grundy County School Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Grundy County School Department's ability to administer major federal programs in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06.07, 06.10, 06.11, and 06.12.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Schedule of Federal Awards

We have audited the financial statements of each major fund and the aggregate remaining fund information of Grundy County, Tennessee, and the Grundy County School Department as of and for the year ended June 30, 2006, and have issued our reports thereon dated January 19, 2007. Our reports on the financial statements of Grundy County and the Grundy County School Department express adverse opinions because the

government-wide financial statements are not presented in accordance with Governmental Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Grants is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan" with a long horizontal flourish extending to the right.

John G. Morgan
Comptroller of the Treasury

JGM/rc

Grundy County, Tennessee, and the Grundy County School Department
Schedule of Expenditures of Federal Awards and State Grants (1)
For the Year Ended June 30, 2006

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture:			
Passed-through State Department of Agriculture:			
Food Donation (Noncash Assistance)	10.550	N/A	\$ 60,869
Rural Business Enterprise Grants	10.769	(2)	4,000
Total Passed-through State Department of Agriculture			<u>\$ 64,869</u>
Passed-through State Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	N/A	\$ 260,674
National School Lunch Program	10.555	N/A	577,090
Total Passed-through State Department of Education			<u>\$ 837,764</u>
Total U.S. Department of Agriculture			<u>\$ 902,633</u>
U.S. Department of Housing and Urban Development:			
Passed-through State Department of Economic and Community Development:			
Community Development Block Grants/State's Program	14.228	GG-04-10961-00	\$ 112,119
Passed-through State Housing Development Agency:			
HOME Investment Partnerships Program	14.239	(2)	\$ 53,411
Total U.S. Department of Housing and Urban Development			<u>\$ 165,530</u>
U.S. Department of Justice:			
Passed-through Hamilton County Sheriff's Department:			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	(2)	\$ 6,274
U.S. Department of Labor:			
Passed-through Workforce Solutions:			
WIA Youth Activities	17.259	06-06-061-306-Youth	\$ 40,760
U.S. Department of Education:			
Passed-through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 719,466
Special Education Cluster:			
Special Education - Grants to States	84.027	N/A	604,591
Special Education - Preschool Grants	84.173	N/A	31,251
Vocational Education - Basic Grants to States	84.048	N/A	99,929
Safe and Drug Free Schools and Communities - State Grants	84.186	(2)	16,299
Even Start - State Educational Agencies	84.213	(2)	93,077
State Grants for Innovative Programs	84.298	N/A	5,478
Education Technology State Grants	84.318	(3)	72,208
Reading First State Grants	84.357	(2)	205,500
Rural Education	84.358	N/A	74,618
Improving Teacher Quality State Grants	84.367	N/A	170,263
Total Passed-through State Department of Education			<u>\$ 2,092,680</u>
Passed-through State Department of Labor and Workforce Development:			
Adult Education - State Grant Program	84.002	Z-05-022222-00	\$ 75,142
Passed-through State Department of Human Services:			
Rehabilitation Service - Vocational Rehabilitation Grants to States	84.126	GG-04-10276-02	\$ 31,736
Passed-through Sequatchie County Board of Education:			
Twenty-First Century Community Learning Centers	84.287	(2)	166,045
Total U.S. Department of Education			<u>\$ 2,365,603</u>
U.S. Department of Health and Human Services:			
Passed-through State Department of Labor and Workforce Development:			
Temporary Assistance for Needy Families	93.558	Z-06-027185-00	\$ 26,113

(Continued)

Grundy County, Tennessee, and the Grundy County School Department
Schedule of Expenditures of Federal Awards and State Grants (1) (cont.)

Federal/Pass-through Agency/State Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security:			
Passed-through State Department of Military:			
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	97.004	(4)	\$ 128,117
Homeland Security Grant Program	97.067	Z-05-025160-00	28,587
Total U.S. Department of Homeland Security			\$ 156,704
Total Expenditures of Federal Awards			\$ 3,663,617
<u>State Grants</u>		<u>Contract Number</u>	
Family Resource Center - State Department of Education	N/A	(2)	\$ 33,300
Safe Schools Act - State Department of Education	N/A	(2)	16,310
Early Intervention - State Department of Finance and Administration	N/A	(2)	67,880
Voluntary Pre-K for Tennessee - State Department of Education	N/A	(2)	91,548
Lottery for Education After School Program - State Department of Education	N/A	(5)	110,359
State Reappraisal Program - Comptroller of the Treasury	N/A	(2)	5,952
Governor's Highway Safety Sign Program - State Department of Transportation	N/A	Z-05-024231-00	9,997
Litter Program - State Department of Transportation	N/A	Z-06-027961-00	37,737
Juvenile Services Program - State Commission on Children and Youth	N/A	Z-06-002597-00	9,000
Recycling Equipment Grant - State Department of Environment and Conservation	N/A	Z-05-020873-00	21,095
Local Health Services - State Department of Health	N/A	Z-06-025955-01	14,999
Total State Grants			\$ 418,177

CFDA - Catalog of Federal Domestic Assistance
N/A - Not Applicable

- (1) - Presented in conformity with generally accepted accounting principles using the modified accrual basis of accounting.
- (2) - Information not available.
- (3) - Z-04-020850-00: \$43,149; Information not available: \$29,059
- (4) - Z-04-022445-01: \$55,121; Z-03-017752-01: \$30,000; Z-04-020097-00: \$42,996
- (5) - Z-05-027725-00: \$61,359; Information not available: \$49,000

Grundy County, Tennessee, and the Grundy County School Department
Schedule of Audit Findings Not Corrected
June 30, 2006

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. Presented below are findings from the Annual Financial Report for Grundy County, Tennessee, and the Grundy County School Department for the year ended June 30, 2005, which have not been corrected.

GRUNDY COUNTY AND GRUNDY COUNTY SCHOOL DEPARTMENT

Finding Number	Page Number	Subject
05.01	12	Government-wide financial statements were not presented in accordance with generally accepted accounting principles

OFFICE OF COUNTY MAYOR

Finding Number	Page Number	Subject
05.02	13	Transactions related to the operation of the county-owned sewer system were not accounted for through an enterprise fund

OFFICE OF DIRECTOR OF SCHOOLS

Finding Number	Page Number	Subject
05.03	13	General Purpose School Fund expenditures and encumbrances exceeded appropriations approved by the County Commission
05.04	14	Controls over inventories were not adequate

OFFICE OF SHERIFF

Finding Number	Page Number	Subject
05.07	15	Funds were not deposited within three days of collection

OTHER FINDINGS

Finding Number	Page Number	Subject
05.09	16	A central system of accounting, budgeting, and purchasing had not been adopted
05.10	17	Duties were not segregated adequately in the Offices of County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff

**GRUNDY COUNTY, TENNESSEE, AND THE
GRUNDY COUNTY SCHOOL DEPARTMENT**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

PART I, SUMMARY OF AUDITOR'S RESULTS

1. Adverse opinions were issued on the financial statements of Grundy County and the Grundy County School Department.
2. The audit of the financial statements of Grundy County and the Grundy County School Department disclosed reportable conditions in internal control. None of these conditions were considered to be a material weakness.
3. The audit disclosed two instances of noncompliance which were material to the financial statements of Grundy County, and one instance of noncompliance that was material to the financial statements of the Grundy County School Department.
4. Our audit disclosed two reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit revealed two findings that are required to be reported under Section 510(a) of OMB Circular A-133.
7. The Child Nutrition Cluster: School Breakfast Program and National School Lunch Program (CFDA Nos. 10.533 and 10.555), Title I Grants to Local Educational Agencies (CFDA No. 84.010), and the Special Education Cluster: Special Education – Grants to States and Special Education – Preschool Grants (CFDA Nos. 84.027 and 84.173) were determined to be major programs.
8. A threshold of \$300,000 was used to distinguish between Type A and Type B federal programs.
9. Grundy County and the Grundy County School Department did not qualify as low-risk auditees.

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations, as a result of our examination, are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. The written responses of the current director of schools are paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

GRUNDY COUNTY AND GRUNDY COUNTY SCHOOL DEPARTMENT

FINDING 06.01 GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Material Noncompliance Under Government Auditing Standards)

Grundy County and the Grundy County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Grundy County and the Grundy County School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Grundy County’s and the Grundy County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on their financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires governments that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. Grundy County’s and the Grundy County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Grundy County and the Grundy County School Department should present government-wide financial statements in conformity with generally accepted accounting principles and should compile and maintain records that properly account for their capital assets. These records should document the historical costs of their capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

OFFICE OF COUNTY MAYOR

FINDING 06.02 **TRANSACTIONS RELATED TO THE OPERATIONS OF THE COUNTY-OWNED SEWER SYSTEM WERE NOT ACCOUNTED FOR THROUGH AN ENTERPRISE FUND**
(Material Noncompliance Under Government Auditing Standards)

The County Mayor's Office did not account for transactions of the county-owned sewer system through an enterprise fund. Instead, these transactions were accounted for through the county's General Fund. Section 68-221-208, Tennessee Code Annotated, and paragraph 8(m) of the Wastewater Facility Revolving Fund Loan Agreement provide for Grundy County to establish a sewer user's fee and/or ad valorem taxes as necessary to provide sufficient funds to pay the costs of operation and maintenance, including depreciation, according to generally accepted accounting principles and debt service requirements of the sewer system. Reporting the sewer system through an enterprise fund is the only method that would ensure sufficient funds are available to pay the costs of operations and maintenance, including depreciation and debt service requirements of the sewer system.

RECOMMENDATION

Transactions related to the operations of the county-owned sewer system should be accounted for through an enterprise fund established expressly for those purposes as required by state statute and the Wastewater Facility Revolving Fund Loan Agreement.

FINDING 06.03 **THE OFFICE DID NOT MAINTAIN INVENTORY RECORDS FOR NONDEPRECIABLE ASSETS**
(Internal Control – Reportable Condition Under Government Auditing Standards)

The office did not maintain inventory records for its nondepreciable assets. Generally accepted accounting principles require accountability for all county-owned assets, such as equipment, furniture, and vehicles. Without inventory records, the county cannot adequately control its assets.

RECOMMENDATION

The county should improve controls over all assets. County officials should maintain inventory records for all county-owned assets, including nondepreciable assets, as required by generally accepted accounting principles. Furthermore, county officials should ensure that personnel independent of the record-keeping process periodically verify inventory records.

OFFICE OF HIGHWAY SUPERINTENDENT

FINDING 06.04 INVOICES WERE PAID WITHOUT DOCUMENTATION THAT GOODS HAD BEEN RECEIVED OR SERVICES HAD BEEN RENDERED

(Internal Control – Reportable Condition Under Government Auditing Standards)

In several instances, invoices were paid without documentation that goods had been received or services had been rendered. This practice weakens controls over the purchasing process. We extended our audit procedures and determined that these goods were received and services were rendered.

RECOMMENDATION

The office should improve purchasing procedures by obtaining documentation that goods have been received or services have been rendered before invoices are paid.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 06.05 EXPENDITURES, ENCUMBRANCES, AND OTHER USES EXCEEDED APPROPRIATIONS

(Noncompliance Under Government Auditing Standards)

Expenditures and encumbrances exceeded total appropriations approved by the County Commission in the General Purpose School Fund by \$100,244. Expenditures and other uses exceeded total appropriations approved by the County Commission in the School Federal Projects Fund by \$44,813.

Section 5-9-401, Tennessee Code Annotated, states that “All funds from whatever source derived, including, but not limited to, taxes, county aid funds, federal funds, and fines, that are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices, and agencies of county governments shall be appropriated to such use by the county legislative bodies.”

RECOMMENDATION

Expenditures, encumbrances, and other uses should be held within appropriations approved by the County Commission.

MANAGEMENT’S RESPONSE – CURRENT DIRECTOR OF SCHOOLS

Expenditures and encumbrances will be held within appropriations approved by the County Commission. Unexpected revenue came in June and did not get amended into the budget.

FINDING 06.06

THE OFFICE DID NOT PROPERLY MAINTAIN INVENTORY RECORDS AND CONTROL OVER ASSETS

(Internal Control – Reportable Condition Under Government Auditing Standards)

Our examination of controls over School Department assets revealed the following deficiencies:

- A. Teachers and librarians at individual schools prepared annual inventory lists; however, these lists were not verified by personnel independent of maintaining the lists.
- B. The School Department did not have procedures to ensure that newly acquired assets were added to the inventory lists and that surplus or destroyed items were removed from the lists.
- C. Some assets were not identified as property of the School Department. These assets reflected only the asset number inscribed with a permanent marker.

Generally accepted accounting principles require accountability for all department-owned assets, such as equipment, furniture, and vehicles. The failure to properly maintain inventory records results in a loss of control over assets.

RECOMMENDATION

The School Department should improve controls over assets. School Department officials should implement procedures to ensure personnel independent of the record-keeping process periodically verify inventory records. Procedures should be implemented to ensure that new equipment is added to the inventory and that surplus and destroyed items are removed from the inventory. Also, all assets should be clearly marked as property of the School Department.

MANAGEMENT'S RESPONSE – CURRENT DIRECTOR OF SCHOOLS

Procedures will be implemented to ensure that new equipment is added to the inventory and that old equipment destroyed will be removed. New labels will be added to the equipment. Verification of new equipment will be checked by someone at each school who did not do the original inventory.

FINDING 06.07

INVOICES WERE PAID WITHOUT DOCUMENTATION THAT GOODS HAD BEEN RECEIVED OR SERVICES HAD BEEN RENDERED

(Internal Control – Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

In several instances, invoices were paid without documentation that goods had been received or services had been rendered. This practice weakens controls over the purchasing

process. We extended our audit procedures and determined that these goods were received and services were rendered.

RECOMMENDATION

The office should improve purchasing procedures by obtaining documentation that goods have been received or services have been rendered before invoices are paid.

MANAGEMENT'S RESPONSE – CURRENT DIRECTOR OF SCHOOLS

Every attempt will be made to acquire packing and shipping labels from all departments and schools.

OFFICE OF SHERIFF

FINDING 06.08 **THE OFFICE HAD DEFICIENCIES IN RECEIPTING AND DEPOSITING COLLECTIONS** (Noncompliance Under Government Auditing Standards)

The following deficiencies were noted during our examination of the office's receipting and depositing of collections:

- A. Official prenumbered receipts were not issued for some collections. Section 9-2-103, Tennessee Code Annotated (TCA) requires that official prenumbered receipts be issued for all collections.
- B. Collections were not always deposited to the office bank account within three days of collection as required by Section 5-8-207, TCA. This statute requires county officials to deposit all funds within three days of collection.

RECOMMENDATION

Official prenumbered receipts should be issued for all collections, and funds should be deposited to the office bank account within three days of collection as required by state statutes.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 06.09 **A CENTRAL SYSTEM OF ACCOUNTING, BUDGETING, AND PURCHASING HAD NOT BEEN ADOPTED** (Internal Control – Reportable Condition Under Government Auditing Standards)

County officials had not adopted a central system of accounting, budgeting, and purchasing. Establishing a central system would significantly improve internal controls over the accounting and budgeting processes.

RECOMMENDATION

County officials should consider adopting the County Financial Management System of 1981 or a private act that would provide for a central system of accounting, budgeting, and purchasing covering all county departments.

FINDING 06.10 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF COUNTY MAYOR, HIGHWAY SUPERINTENDENT, DIRECTOR OF SCHOOLS, TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF**

(Internal Control – Reportable Condition Under Government Auditing Standards and OMB Circular A-133)

Duties were not segregated adequately among officials and employees in the Offices of County Mayor, Highway Superintendent, Director of Schools, Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.

MANAGEMENT'S RESPONSE – CURRENT DIRECTOR OF SCHOOLS

Due to a lack of funds, many employees have multiple duties. Every attempt is made to delegate duties among personnel.

**PART III, FINDINGS AND QUESTIONED
COSTS FOR FEDERAL AWARDS**

Federal Agency	Finding Number	Federal CFDA Number	Criteria	Explanation	Amount Questioned
U.S. Department of Education Passed-through State Department of Education: Title I Grants to Local Educational Agencies Special Education Cluster: Special Education - Grants to States Special Education - Preschool Grants	06.11	84.010 84.027 84.173	Circular A-133, Section 500(c)(3)	Reportable Condition in Internal Control - See Finding 06.07 - Invoices were paid without documentation that goods had been received or services had been rendered	\$ 0
U.S. Department of Agriculture: Passed-through State Department of Education: Child Nutrition Cluster: School Breakfast Program School Lunch Program	06.12	10.553 10.555	Circular A-133, Section 500(c)(3)	Reportable Condition in Internal Control - See Finding 06.10 - Duties were not adequately segregated in the Office of Director of Schools	0
U.S. Department of Education: Passed-through State Department of Education: Title I Grants to Local Educational Agencies Special Education Cluster: Special Education - Grants to States Special Education - Preschool Grants		84.010 84.027 84.173			

**GRUNDY COUNTY, TENNESSEE, AND THE
GRUNDY COUNTY SCHOOL DEPARTMENT
AUDITEE REPORTING RESPONSIBILITIES
For the Year Ended June 30, 2006**

There were four findings relative to federal awards presented in the current year audit's Schedule of Findings and Questioned Costs and no findings relative to federal awards presented in the prior audit's Schedule of Findings and Questioned Costs.

Office of Director of Schools – Corrective Action Plan for Current Year Findings

FINDINGS 06.07 and 06.11

Contact Person: Joel Hargis, Current Director of Schools

Corrective action planned: Every attempt will be made to acquire packing and shipping labels from all departments and schools.

Anticipated completion date: 2006-07

FINDINGS 06.10 and 06.12

Contact Person: Joel Hargis, Current Director of Schools

Corrective action planned: Due to a lack of funds, many employees have multiple duties. Every attempt is made to delegate duties to different personnel.

Anticipated completion date: None